

# HUD MULTIFAMILY INSURANCE LEGISLATION

Y 4. B 22/3: S. HRG. 103-306

HUD Multifamily Insurance Legislati... RING

BEFORE THE

SUBCOMMITTEE ON  
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON  
BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

LEGISLATIVE RECOMMENDATIONS FOR CORRECTING MANAGEMENT  
PROBLEMS ASSOCIATED WITH HUD MULTIFAMILY INSURANCE PRO-  
GRAMS

JULY 28, 1993

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

MAR 2 1994



U.S. GOVERNMENT PRINTING OFFICE

74-693 CC

WASHINGTON : 1993

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-043395-9



# HUD MULTIFAMILY INSURANCE LEGISLATION

Y 4. B 22/3: S. HRG. 103-306

HUD Multifamily Insurance Legislati... RING

BEFORE THE

SUBCOMMITTEE ON  
HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON  
BANKING, HOUSING, AND URBAN AFFAIRS  
UNITED STATES SENATE  
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

LEGISLATIVE RECOMMENDATIONS FOR CORRECTING MANAGEMENT  
PROBLEMS ASSOCIATED WITH HUD MULTIFAMILY INSURANCE PRO-  
GRAMS

JULY 28, 1993

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

MAR 2 1994



U.S. GOVERNMENT PRINTING OFFICE

74-693 CC

WASHINGTON : 1993

For sale by the U.S. Government Printing Office  
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

ISBN 0-16-043395-9

## COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

DONALD W. RIEGLE, Jr., Michigan, *Chairman*

PAUL S. SARBANES, Maryland	ALFONSE M. D'AMATO, New York
CHRISTOPHER J. DODD, Connecticut	PHIL GRAMM, Texas
JIM SASSER, Tennessee	CHRISTOPHER S. BOND, Missouri
RICHARD C. SHELBY, Alabama	CONNIE MACK, Florida
JOHN F. KERRY, Massachusetts	LAUCH FAIRCLOTH, North Carolina
RICHARD H. BRYAN, Nevada	ROBERT F. BENNETT, Utah
BARBARA BOXER, California	WILLIAM V. ROTH, Jr., Delaware
BEN NIGHTHORSE CAMPBELL, Colorado	PETE V. DOMENICI, New Mexico
CAROL MOSELEY-BRAUN, Illinois	
PATTY MURRAY, Washington	

STEVEN B. HARRIS, *Staff Director and Chief Counsel*

HOWARD A. MENELL, *Republican Staff Director*

KEVIN G. CHAVERS, *Counsel*

JEANNINE S. JACOKES, *Professional Staff Member*

EDWARD M. MALAN, *Editor*

---

## SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

PAUL S. SARBANES, Maryland, *Chairman*

JOHN F. KERRY, Massachusetts	CHRISTOPHER S. BOND, Missouri
RICHARD H. BRYAN, Nevada	PETE V. DOMENICI, New Mexico
BARBARA BOXER, California	CONNIE MACK, Florida
CAROL MOSELEY-BRAUN, Illinois	LAUCH FAIRCLOTH, North Carolina
CHRISTOPHER J. DODD, Connecticut	WILLIAM V. ROTH, Jr., Delaware

PAUL WEECH, *Staff Director*

CHERYL A. FOX, *Counsel*

LORI BAMBERGER, *Counsel*

EILEEN GALLAGHER, *Legislative Assistant*

JONATHAN KAMARCK, *Republican Staff Director/Subcommittee  
on Housing and Urban Affairs*

FALLIE E. BOLEN, *Professional Staff Member*

PAMELA RAY-STRUNK, *Republican Staff Member*

# CONTENTS

WEDNESDAY, JULY 28, 1993

	Page
Opening statement of Chairman Riegle .....	1
Opening statements, comments, or prepared statements of:	
Senator D'Amato .....	2
Prepared statement .....	47
Senator Bond .....	3
Senator Faircloth .....	6
Senator Boxer .....	13
Senator Sarbanes .....	13
Senator Dodd .....	14
Senator Domenici .....	20
Senator Kerry .....	21

## WITNESSES

Henry Cisneros, Secretary, U.S. Department of Housing and Urban Development, Washington, DC .....	7
Prepared statement .....	48
Housing and Community Development Act of 1993 .....	49
Amendments to the fiscal year 1994 budget request .....	49
Response to written questions of:	
Senator Riegle .....	78
Nicolas P. Retsinas, Assistant Secretary for Housing/Federal Housing Commissioner .....	16
Prepared statement .....	51
Joseph Shuldiner, Assistant Secretary for Public and Indian Housing .....	18
Prepared statement .....	54
Andrew M. Cuomo, Assistant Secretary for Community Planning and Development .....	22
Prepared statement .....	57
Walter D. Webdale, Director of Housing and Community Development of Fairfax County, Va. representing five groups—Conference of Mayors, League of Cities, Association of Local Public Housing Authorities, and National Community Development Association, Fairfax, VA .....	35
Prepared statement .....	59
Stephen Coyle, Chief Executive Officer, AFL-CIO Housing Investment Trust, Washington, DC .....	38
Prepared statement .....	62
I. Section 8 Community Investment Demonstration Program .....	62
II. The role of section 8 project based assistance .....	62
III. The growth of pension funds .....	63
IV. The pattern of disinvestment in cities and the reduction in Federal assistance .....	64
V. The national partnership for community investment .....	64

# IV

	Page
Maryann Russ, Executive Director, Council of Large Public Housing Authorities, Washington, DC .....	41
Prepared statement .....	65
Marilyn Melkonian, President—Telesis, Former Deputy Assistant Secretary, HUD, Washington, DC .....	43
Prepared statement .....	76
ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD	
NAHRO .....	85

# HUD MULTIFAMILY INSURANCE LEGISLATION

---

WEDNESDAY, JULY 28, 1993

U.S. SENATE,  
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,  
*Washington, DC.*

The committee met at 10:15 a.m., in room SD-538 of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (chairman of the committee) presiding.

## OPENING STATEMENT OF CHAIRMAN DONALD W. RIEGLE, JR.

The CHAIRMAN. The committee will come to order.

Let me welcome all those in attendance this morning.

Let me indicate that Senator Sarbanes hopes to be here, wanted to be here at the outset but he has an important hearing this morning in the Foreign Relations Committee that requires his attendance.

I want to make a set of opening comments, then I want to yield to Senator D'Amato and Senator Bond for their comments.

First, let me welcome HUD Secretary Henry Cisneros back before the committee today. We're here to consider the administration's Housing and Community Development Act of 1993, numbered S.1299, which I, along with Senator Sarbanes, have introduced by request early this morning.

We're very pleased to have the Secretary with us. This is actually the sixth occasion on which he's testified before the committee this year, so he's been busy many places, but has been busy with us here, and we appreciate his willingness to squarely address many of the issues that have been facing the Department of Housing and Urban Development now for many years.

I recall, in your confirmation hearing, Mr. Secretary, that you told us that you had accepted this job with the idea of coming in and confronting issues of concern to me, Senator D'Amato, Senator Bond, Senator Sarbanes and others. And that you would, at the earliest time that you were able, fully evaluate the situation, decide what course of action was needed, where the most pressing and urgent problems were, and you would come back to us to seek whatever authority you needed to move ahead and deal with those problems and produce the kind of performance for the country out of the Department that we all want to see.

So you're keeping that pledge today by coming forward with these recommendations. During your previous appearances before the committee, you've delivered very powerful testimony regarding the many management problems at the Department in general,



and the acute problems facing HUD's family insurance programs in particular.

The Department's management deficiencies and multifamily housing problems are, of course, of keen interest to this committee and have been now for some great length of time. And obviously something has got to be done to improve the situation. I am encouraged by the fact that the administration has moved quickly to develop a detailed program to begin to address these problems.

The proposal from the administration which we're here to consider today is primarily designed to address the Department's multifamily insurance crisis by alleviating the growing backlog of HUD owned properties. In addition, the bill seeks to provide for greater program flexibility through public housing reforms, revisions to the Drug Elimination Grant Program, and other technical corrections.

Specifically, the bill has seven key components, and I want to list them for the record. No. 1, multifamily property disposition. No. 2, a revision of public housing rent rules. No. 3, improvements in the Section 108 Loan Guarantee Program. No. 4, amendments to the HOME Affordable Housing Program. No. 5, improvements in COMPAC and anti-crime public housing program. No. 6, merger of two distressed housing programs. And, No. 7, technical corrections.

I want to say again that I appreciate the fact, Mr. Secretary that you've attempted to address these difficult issues head on. It's the only way to do it and to make any material progress in my view.

I am encouraged by my own initial reading of the legislation. I think this legislation is an important first step. I also believe that there are some important administrative reforms, which I believe the Department may also wish to undertake.

I want to indicate today that I will work with you, and the members of the committee I'm sure will, as well, in the bipartisan cooperative way in which we work on this committee to address the issues that come before us, but very particularly in this case, to pass effective reform legislation as quickly as we can. We know there's money being lost, additional money that will be lost, and gains to citizens foregone unless we can tighten things up and make the improvements that we know are needed.

So there is much work to be done here, and many issues to be resolved, and I look forward to hearing from all of our distinguished witnesses this morning.

Senator D'Amato, would you like to go first? Or Senator Bond? Either one.

#### **OPENING STATEMENT OF SENATOR ALFONSE M. D'AMATO**

Senator D'AMATO. Mr. Chairman, I'm just going to make a couple of remarks, if I might, because I am managing an amendment on the floor today, dealing with terrorism, and it's going to start at 10:30 a.m.

First of all, I want to commend you, and it's good to see the Secretary and Andrew Cuomo, and the assistants.

I'm going to ask that my full statement be placed in the record.

The CHAIRMAN. Without objection.

Senator D'AMATO. Mr. Secretary, there has been literally a fire storm brewing as it relates to some of the changes that have been proposed on the fair market rent levels under the section 8 pro-



gram. While the impact, as it relates to the major urban centers, such as New York City, is minimal, if any at all, as it relates to the rural communities, our upstate communities, it is devastating. In some areas, it would have the drastic impact of a 50 percent reduction. That just simply is not sustainable.

I have not been one of the greatest supporters of the PHA people, the public housing authorities, per se. Some have done excellent work; some not so much. But this kind of structural change, I'm concerned, will just be devastating. It really flies in the face of what you're attempting to do.

So if I might suggest, and I know that you have extended the comment period, it was for initially, I think, 60 days, and you've gone to the end of August. I might suggest that you even go further than that, so that we might even be able to discuss that, if there's legislation necessary in a markup that we might undertake.

But in addition, I ask your people to please take very carefully the comments that the public housing and the suggestions that they have. If we're going to talk about some cost reduction, I'm not against that, but let's try to do it in a managed way. You just cannot take such a radical departure. You'll just be throwing people out.

Then let me say that I look forward to working with you on the important questions as it relates to the section 8 funding that needs to dispose of properties to give you greater flexibility to deal with that. It certainly is a significant area of concern, and we look forward to working with you.

I now, in saying that, I'm talking for the full committee and I know Senator Bond and the chairman of the subcommittee certainly or the ranking member of the subcommittee is certainly of a mind to do anything we can to give you the kind of flexibility that will minimize the cost to the taxpayers and give you the ability to retain properties that should be retained and to dispose of those that can and should be.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Bond.

#### **OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND**

Senator BOND. Thank you very much, Mr. Chairman, for holding this hearing. It's a very timely and important hearing. And I also want to thank Secretary Cisneros and his colleagues and the other witnesses for taking time today to provide us with very valuable testimony.

I would say on another subject, Mr. Chairman, that while we have been suffering in Missouri under historic floods, and I said of even biblical proportions, we have had tremendous response from the administration.

Mr. Secretary, you and your people in HUD have gone out of the way to try to assist people who have lost their homes to find appropriate housing. This is a situation in which we have seen flood waters above what we expected was a 100-year level, and perhaps even a 500 year level, and people who thought that their homes were safe have found 3 and 4 feet of water with all of the consequent problems that go with it.

So there is going to be a significant need, both in the urban and the rural areas for some kind of relief for these people. As I mentioned to you, some of our most serious problems are in the rural areas. We'll be looking at Farmers Home for help there.

But as we have all seen on television and the national news, there are many areas in our metropolitan areas where people have been driven from their homes and frankly don't have the prospect of getting back in in the near future.

We do appreciate, and I do commend you and the people of HUD for your extra efforts in helping us deal with something we've never had to fight before.

Having said that, the purpose of the hearing is to examine issues related to the Housing and Community Development Act of 1993 and other items on HUD's legislative agenda.

The showcase piece of the Housing and Community Development Act of 1993 is a legislative fix to the issues facing the FHA Multifamily Housing Property Disposition Program.

At the outset, we note that the Housing and Community Development Act of 1993 was officially transmitted to Congress only yesterday. Speaking for myself, I clearly have not had adequate time to digest and review the complicated proposals in this legislation.

I apologize if my attention has been elsewhere. I think that it is important for this hearing to go forward, however, because it does offer us on the committee an early opportunity to examine the important issues in the legislation. But I would say that my initial reaction, just from a cursory review, raises some doubts about the efficacy of the approaches suggested by HUD to address the issues facing the FHA Multifamily Housing Property Disposition Program.

Because of these concerns and the fact that the legislation was just transmitted, I look forward to an opportunity to visit with you. And I would suggest to the Chairman that we might consider further hearings on the bill and on the budget amendments before proceeding with a markup.

The issues facing the FHA Multifamily Housing Property Disposition Program are some very important ones, and yet some very difficult ones.

The Housing Subcommittee, on June 22, 1993, held a hearing on the FHA Multifamily Housing Property Disposition Program. At that time, HUD indicated that the program was costly to the Department, and that section 203 of the Housing and Community Development Amendments of 1978 has limited the ability of the Department to manage and to dispose effectively and efficiently of the housing inventory.

In particular, I note that as of April 1, 1993, HUD owned approximately 189 multifamily housing projects with 31,600 plus units, and was mortgagee-in-possession for approximately 102 other multifamily housing projects, with some 15,600 plus units. On top of that, as of April 1, there were approximately 287 multifamily housing projects with almost 43,000 units in the pipeline awaiting foreclosure by HUD.

There's no question that this is a tremendous backlog. It's clearly a resource not being adequately used. These are the problems that we must address.

As a practical matter, HUD has construed section 203 of the 1978 Amendments to require that the Department provide 15-year project-based section 8 assistance for most of the units in the housing projects held by HUD in its multifamily housing inventory. And, as I understand it, HUD estimates that it would cost \$3 billion in 15-year project-based section 8 assistance to dispose of the current multifamily housing inventory. And I understand that this cost could rise to \$10 billion over the next several years.

I wish I could say that I felt that the HUD legislative proposal addresses the cost of the disposition issues. I certainly will give HUD credit for a good start. But I'm concerned it doesn't go far enough. It's not creative enough, and it may not provide HUD with sufficient flexibility. My concern is that it appears to focus, in large part, once again, on warehousing the poor in subsidized and formally subsidized housing projects, and plans to pay for some of the costs by running a discretionary grant program out of the general insurance fund. Now that's a mandatory budget account, and not intended to be a housing assistance grant program.

I would encourage HUD to provide or obtain a legal opinion on the interaction of the Budget Enforcement Act and the planned use of mandatory expenditures to pay for a new grant program. I think this is a problem that we may face, and we ought to address it upfront.

HUD's approach does cause me concern. As I said, I would like for HUD to look for more creative approaches that emphasize mixed income projects that in part could be economically self-sustaining and be socially positive environments.

With Senator D'Amato, I recently introduced a measure we call the FHA Multifamily Housing Flexible Disposition Act of 1993. This bill would give HUD complete flexibility for 18 months to dispose of its multifamily housing inventory while emphasizing the need to maintain the maximum number of units for low-income households.

The bill anticipates that HUD would develop models like the RTC Affordable Housing Program that sets rents according to units, not the income of the family, with set-asides for very low- and low-income households.

Mr. Secretary, we have great confidence in you and your people. This would be a major challenge. We'd be interested in whether you think you could work with such flexibility. I, for one, having come originally from the Executive side, think that perhaps some of the best solutions can be developed by those who are actually administering the programs, and perhaps not always do we, on this side of the table and the Legislative Branch, have all of the answers.

My experience—well, I won't get into my experience.

[Laughter.]

Senator BOND. I would say, if you're willing to take it on, I for one, and Senator D'Amato are willing to give you the flexibility to develop these approaches.

I do compliment HUD on the public housing rent reforms in the Housing and Community Development Act of 1993. I think these reforms will generally provide a workable ceiling rent formula and



an income disallowance formula that would encourage public housing families to work without losing needed income.

I find it interesting that the public housing provisions seem to recognize that warehousing the poorest of the poor is a failed public policy, not only for the housing, but also for the social environment of the residents. I would urge that we attempt to apply that same lesson to HUD-owned multifamily housing, as well.

Mr. Chairman, again, I thank you for calling this valuable hearing. I look forward to the testimony of the witnesses, and to working with the Secretary and the Department on this important legislation.

The CHAIRMAN. Thank you very much, Senator Bond.

Let me just say that Senator D'Amato has to go to the floor to manage a bill and regrets very much having to do so, and will come back if he is able.

Senator Faircloth.

#### OPENING STATEMENT OF SENATOR LAUCH FAIRCLOTH

Senator FAIRCLOTH. Thank you, Mr. Chairman.

Thank you, Secretary Cisneros, for being with us.

My statement is real short and overly simplistic, but we start these hearings the first day you were here, the first time, first morning, I asked you what were you going to do to spend less money in HUD. You remember. Well, there are going to be a lot of things we're going to do. Never a commitment to spend less, but certainly we're going to contain.

I still go back, never has a Nation taxed and spent itself to prosperity. We're still suffering the tax increase of 1990.

I read about reform. I've been reading about reform in Government for many, many years. By osmosis, it finally got through my head, reform means more money. Always the same. When you reform it, that's a code word for more spending. Will we continue to add burden on the taxpayers with never any relief?

The cost of Government and the cost of the welfare state increases every time the Congress comes into session and adjourns. They've increased the welfare state and made it more difficult for the private sector to function and pay for the welfare state.

Last year, President Clinton said he would end welfare as a way of life, yet people in these housing projects have been there now for generations.

We talk about warehousing them. They are still there. In most cases, they've been, as we all know, a warren of crime and illegal activities.

Is there anything in this proposal you have that is going to encourage them to leave the housing project, not to be there for a life time, to limit the amount of time they're going to be in the housing projects?

We talk about more money. In the last 12 years, the spending for HUD has increased 92 percent, far, far faster than anything that's happened in the growth of the private sector.

I understand the problems you face—no, I don't understand them, but I'm aware of some of them, and I know that there are many. And you certainly have my empathy in trying to solve them.

But is there any way to solve a problem in Government that doesn't require more money and more taxes?

I wish you'd find one.

Thank you.

The CHAIRMAN. Mr. Secretary, we've got your full statement. We'll make that a part of the record. We'd like to hear your statement now.

### STATEMENT OF HENRY CISNEROS, SECRETARY, HUD

Secretary CISNEROS. Thank you very much, Mr. Chairman, Members of the committee. Thank you for the opportunity to appear before you and discuss these important legislative priorities.

I'm very happy to be joined today by three of the Assistant Secretaries of the Department, people of whom I am very proud. I have great confidence in their ability to help us move from the areas of difficulty, and believe that they are among the best people in the country in the respective areas that they've been chosen to head at the Department.

They will speak today, because it's my belief that not only do they know the subject areas exceedingly well from their experience, but they are the people who will carry out some of the authorizations that you give us.

The first to speak will be Nick Retsinas. He is the Assistant Secretary who heads the housing portion of HUD, the Federal Housing Administration, FHA.

The second to speak will be Joe Shuldiner, Assistant Secretary for Public Housing, who will speak about the rent rules in public housing and an anticrime initiative that we think is very important.

The third will be Andrew Cuomo, Assistant Secretary for Community Planning and Development, who will speak about an economic development initiative, as well as improvements to the HOME program.

Let me say that we are here because we want to be responsive to the kind of statements that you have made in this opening round. The suggestions about how we can do things better with less money will be addressed in these amendments. The need to bring us out of the FHA crisis will be addressed in these amendments.

During my confirmation hearing before this committee, I was asked whether there were statutory impediments that prevented HUD from fulfilling its mission, that kept us from helping to meet the housing, community, and economic development needs of the American people.

I felt that those questions at my confirmation were a signal that if legislation were necessary, once we identified impediments, that I should come back. Well, we're back.

We're back because in the first 6 months of our work at HUD, in addition to the major management problems that we have documented, we found a series of statutory impediments that restrict our ability to function efficiently and effectively.

We're back because those statutory impediments have made it all but impossible for us to sell the inventory of HUD-owned multifam-

ily properties, an inventory that has gone through unprecedented explosive growth in the last few years.

You will hear Assistant Secretary Retsinas describe the way the present law requires us to attach 15-year certificates at great cost before we are able to sell properties back to the private sector.

This is a very difficult balance that we walk. If we don't attach the certificates, then 350,000 families are put out on the street, because when we sell the buildings, they will not be kept as low-income housing.

On the other hand, there isn't enough money, either in the appropriations process or in what the administration has asked for traditionally, to be able to cover 15-year certificates. So we really are caught between a rock and a hard place. And we need the kind of flexibility that Senator Bond referred to earlier.

One can cut this many different ways. It's a question of where you come out on this difficult spectrum. We have chosen a place that we think solves the problem. We had a staff meeting earlier this morning, and I asked, at the end of 4 years of this solution, this approach, what do we have.

The truth is that we have people who are low-income who remain in the housing. It is preserved as low-income housing and the inventory is moved out. Depending upon just the quality of management that I know Nick Retsinas will bring to this process, given the flexibility that we're asking for, we think this is a bona fide crisis, and that's why we are here.

The portion of the bill that deals with FHA deals with one of the most pressing management problems we have at the Department; explosive growth of the FHA multifamily inventory, the properties that have come to HUD.

This legislation would make a series of changes to existing law relieving the most onerous statutory restrictions, as well as making the current disposition process more flexible. We believe these changes are essential, not only to preserve the units, but to fulfill our role as community builders, because these properties today are a distinct blight in communities across America.

Senator Bond, I visited LaClede Town in St. Louis, and saw what was once a thriving area of some 1,200 properties nearly completely vacant. I understand, unbelievably, that some people are still living in there, but much of it has been cannibalized.

That's the effect that we have all across the country as we watch these properties slip into foreclosure, disarray, decline, destructiveness, in their effect on the community at large. We simply can't tolerate that.

The second portion of this bill is exactly the kind of thing that Senator Faircloth asked earlier; where can you make some changes that don't cost money.

We think we can give people who live in public housing an incentive to work where there is today, effectively in the regulations, a disincentive to work, by allowing their income to rise and their rent not rise commensurately.

And we would establish some ceiling rents so that once income does rise, and their rent rises to some level, it never rises to a point where those who begin to earn something must leave public hous-



ing because of prohibitively high rents, when their rent is 30 percent of their total income.

That way, we can achieve something that we believe is essential; that is, an income mix in our public housing developments, not by bringing people in from the outside of higher income levels, but by raising incomes of people on the inside and creating role models in the mean time by having families who are working mixed with families who are of the poorest.

Joe Shuldiner, when he testifies, can share with you some statistics that frankly are stunning. Over the last number of years, the median income, the percentage of area median income of persons in public housing has dropped to 17 percent. That is to say, the average, as a percentage of the area median income of families living in public housing is now 17 percent of median income. That's the poorest of the poor living in public housing altogether, in part because we have created disincentives to income improvement in public housing. We want to fix that in this legislation.

We wouldn't bring you these matters but for the fact that we think opportunities present themselves to act now and use the years of this term, this administration, to build upon the authorities you give us early on. Otherwise, we push these things off into the future, another legislative cycle, and frankly, we just end up running out of time to administer them in a 4-year term.

Assistant Secretary Cuomo will discuss an approach to economic development that exists in the law but has not been well-used because it simply hasn't been attractive enough. It's called the section 108 Loan Guarantee Program. It was \$2 billion of authority to make loans.

What the Assistant Secretary has found is that if we take some recaptured UDAG funds from UDAG projects that were not successful, and the funds are in the Department, can't be used for anything else, and apply them to the section 108 program, we can get interest rates down to where now we have \$2 billion available at 3 and 4 percent interest rates for community economic development initiatives.

It can be administered, it's a solid program, it just needs some extra pump priming and no new money; just recaptured funds and your authority to be able to use the funds in these ways.

We will also describe some amendments to the HOME program.

Well, those are the principal elements of the legislation that we're proposing to you today.

This hearing, I believe, also allows us to speak briefly to four amendments to the 1994 Budget Request, which are also important to us. And they speak to the same ideas that the Senator spoke to earlier; how to make Government work with more flexibility and less Government money. Four provisions, and I'll just hit on them very quickly.

The first, a pension fund partnership which allows us to take \$100 million of section 8 project-based vouchers, and with them, make projects financially viable so that pension systems are willing to invest in those projects.

We think we can bring over \$500 million worth of pension monies by putting \$100 million of vouchers forward, and then beyond that, another \$600 million worth of indirect investment. This is a

tremendous leveraging of Federal resources. We are asking you for the flexibility to use 3,000 project-based certificates in order to make projects viable, so that several hundreds of millions of dollars of pension resources will be leveraged with Federal funds.

For generations, we've been talking about finding other sources of capital for urban development and housing. Here we have an opportunity, and pension funds willing, within their fiduciary responsibilities, to come forward, but we have to make some of these projects more financially sound.

We're also requesting 3,000 additional units of section 8 for a program called "Moving to Opportunity," not a new program, but one we want to enhance, that makes it possible to move people out of obsolete and dilapidated public housing into areas where their children can grow up in new settings, going to new schools, et cetera, and in the process, gives us time to reduce densities and modernize older public housing settings.

In my recent visit to Chicago, the State Street homes there, the Robert Taylor homes, others of the projects, Ida B. Wells, drives home the effect we have had by concentrating the poor all in the central city locations with few options to move.

Chicago is a place where they have a strong infrastructure of community organizations to help people move to new settings, but we need the certificates to make these kinds of approaches work.

A third provision that we're asking is for an innovative homeless initiative that'll allow us to build permanent and transitional housing beyond simply shelters. It allows us to build upon what Secretary Cuomo has defined as a continuum of care approach, where we look at moving people along a continuum of care that includes not only housing, but also treatment for substance abuse and treatment for mental health problems, and we need some flexibility in order to do it.

We have identified \$200 million, which is offset from our own budget; it's not new money, but we need it in order to do this.

And finally, another offset we seek and an authority we seek, is to be able to use some \$25 million to assist the startup of community development corporations that we need in communities to help us work at housing.

Again, let me say, in introducing the Assistant Secretaries, that we know this is out of the normal cycle of HUD authorizations. But this is 1993, and the first of a 4-year cycle, and speaking bluntly, the last year of an administration's term is generally not one that lends itself to new initiatives, so we're really talking about 3 years, or something on the order of 36 months.

We have spent 6 months of that already. We're one-sixth into the effective working term of this administration, and so we beg your indulgence to consider items that we bring of this nature, so that we can build on them.

I think, Senator and Mr. Chairman, what we have brought you are initiatives not that ask for massive new sums of money, but practical approaches that deal with the hand of cards that we have been dealt.

We've tried to be conservative in our assessments of what it will cost in money and still meet our obligations. In the case of the FHA initiative, 350,000 families who are in these units.

We could sell those properties. There's someone who will buy them, sometimes for pennies on the dollar, but we could sell them. What makes it tough is to keep the 350,000 people in them when they're sold, and not put 350,000 families in jeopardy. And that's what ends up costing money.

It needn't be with 15-year certificates in every case, and needn't be every unit of a building. But we need flexibility in the law in order to come up with these kinds of management solutions that allow us to do this.

I appreciate your willingness to hear us, your willingness to work with us.

Let me say, I am willing personally to meet with any Member of this committee, individually or in groups, over the next weeks. I know how difficult this time period is, with the conference committee on the budget and other initiatives and other obligations. I know how difficult it is. But a couple of these matters we feel we need to act in this legislative cycle, or we lose the opportunity to deal with things that will only become more serious for all of us.

And with that, let me ask Assistant Secretary Retsinas to start with the FHA.

The CHAIRMAN. Before you do, I want to just make a comment, and then I want to call on Senator Boxer and Senator Sarbanes, who've joined us, and who have the keenest interest in this subject, to make opening comments.

I appreciate what you've said, and I appreciate the seriousness with which you are carrying out the pledges you made to us in your confirmation hearing that you would work day and night, 7 days a week to focus on these nagging problems at HUD, and come back to us as early as possible with recommendations as to what ought to be done to improve things. And you've done that and I appreciate that.

I think now the obligation shifts to us, here on this committee, and in the Congress generally, to respond to that, to take your recommendations and to work with them and to work with you, and see to it that we're making the kinds of changes programmatically and in terms of administrative flexibility that you need to get the work done.

And I feel strongly that you bring not only a distinguished record prior to your service as Cabinet Secretary but the kind of reputation and objectivity that I think gives your recommendations a special meaning. They do to me. I think that will be true generally for the committee.

As I said to you beforehand, this committee I think tries harder and I think has a better record of success, at least over the last 4 years, to my reading, of working on a bipartisan basis than perhaps any other.

That is one of the goals that I set as the Chairman, and I work very hard to see to it that we, in every case that we can, and that's virtually every case, that we work that way. And I've had, over that period of time, wonderful cooperation from two ranking Republican Members, first Senator Garn and now Senator D'Amato, and people like Senator Bond, who've taken a keen interest and who've worked, in his case, with Senator Sarbanes and others to



such good effect to try to take and make things better in the housing area.

So that serious work effort and that bipartisanship I think is needed now. We're in a time when we're in a more politicized environment than I would like to see generally. And the issues are tough and contentious.

But I think there are some matters that we can proceed with, without having them sort of get caught up in an excessive kind of struggle on a partisan level. And I'm very much of a mind to make sure that that does not happen here insofar as I can help bring it to that end.

As I said to you privately, I want to say for the record I think it's very important that at an early moment out of the emergency circumstances of the floods in the Midwest and so forth, that you have an opportunity to talk with Senator Bond and your people, as well as Senator Sarbanes and others on the committee, who have great interest in this, and also Senator D'Amato, so that we can work out together what differences we have.

There may be some residual differences. I mean, and when we have those, we'll sort those out as best we can. But I want to make sure that we keep faith with the responsibility that we have to see to it that some of these problems can be dealt with in real time in the best way that we can find.

My pledge to you is that I will do all I can, working with the committee on that kind of bipartisan basis, to try to give you a prompt response and a workable response, so that all this work isn't just in vain, but can lead to better results.

And so I want to facilitate discussions, meetings. I'll take what time I need to take as Chairman, and I know my colleagues who care about this will, as well, as they are able to, given the press of other things that are also sort of bearing down on us.

Secretary CISNEROS. Senator, if I may?

The CHAIRMAN. Yes.

Secretary CISNEROS. Simply say, I appreciate, and I want to publicly express appreciation for the time that all the Senators have given us over the months. I've had the opportunity to call on many individually, and about 3 weeks ago or so was in Senator Bond's office. I've had the same opportunity with Senator D'Amato and other Members of the committee, and I appreciate that.

I want you to know, from my standpoint, as well, and the entire Department, that we want to operate on as non-partisan a basis as possible.

These are problems that really know no partisan bonds and the—bounds, and the—

[Laughter.]

Secretary CISNEROS. —but no partisan bonds, either, for that matter.

[Laughter.]

Secretary CISNEROS. And we're looking for practical ways to solve them. We don't have a lot of flexibility on some of these things.

You take that FHA problem, for example. On the one hand, there are easy ways to solve it by asking for more money, but there really isn't a way to do that, and go through the Office of Management

and Budget and the practical problems of mandatory versus discretionary and so forth.

At the other range is to say, well, let's not ask for any money at all; let's just sell off the properties. Then you have 350,000 people who don't have housing, because you can't sell them and keep poor people in the units.

So the answer has to be somewhere in the middle. We think we've fashioned something here that really is not partisan at all, but just a practical management approach to doing it. We'll talk it over with whomever, improve on it as necessary, but we need to move along toward something.

The CHAIRMAN. Let me do this. I'm going to call on Senator Boxer and Senator Sarbanes and Senator Dodd for opening comments they wish to make. And then I'm going to ask each of your people here, I'll give an instruction, if I may, to guide them in their remarks, before they start.

Senator Boxer.

#### OPENING COMMENTS OF SENATOR BARBARA BOXER

Senator BOXER. Mr. Chairman, I only would speak for a moment to say that during the confirmation process, Mr. Secretary, we said come back and tell us if you're facing some legislative problems. I saw Republicans and Democrats commit to you that we would help you. And so you are following up. I'm very pleased. I have a number of questions which I will withhold at this time.

But I think we have to move quickly. I think that you are fortunate that you have a Chairman and a Ranking Member in bipartisanship here because, believe me, on other committees, it isn't as noticeable. And I look forward to working with you.

Secretary CISNEROS. Thank you, Senator.

The CHAIRMAN. Senator Sarbanes.

#### OPENING STATEMENT OF SENATOR PAUL S. SARBANES

Senator SARBANES. Thank you very much, Mr. Chairman.

I'm pleased to welcome the Secretary and his associates before the committee.

I first want to say to the Secretary, we're all very cheered by the very good family news with respect to your son. We're very thankful for that.

Secretary CISNEROS. Thank you.

Senator SARBANES. Second, Mr. Chairman, I want to commend the Secretary for the very expeditious way in which he has moved to address the problems confronting the Department.

First of all, I think you may be the leading Department, or certainly one of the leading departments in filling your top positions and clearing through the confirmation process, the nominees to hold those. I think you've only got a couple more to go, one more to go, as I understand it.

I don't know that there's any other department that can match that, and that's very important to get those people. You don't have to sign all the papers yourself. It makes a big difference.

Secretary CISNEROS. Senator, even more important than the numbers, the quality of the people.

Senator SARBANES. Yes, indeed. I'd certainly subscribe to that. We're pleased to have them come before us and sort of clear them through with almost a wave of the hand.

We're encouraged by the way you've seized the challenge with respect to the administration of the Department. Many of us believe there's much that can and needs to be done in that area, and we're very pleased you're moving on it.

And with respect to the speed with which you've moved on the legislative agenda. Mr. Chairman, I hope we can follow up here. I think it's important to clear away impediments that exist in legislation that inhibit or burden the Department in trying to move ahead in addressing some of these issues.

Now the House sent over, I think, three bills or three items which are pending, which I hope we could deal with. They have a fourth that they may be dealing with, and that we need to address. All of those are fairly discrete, relatively minor items, but they would make a difference for the Department in its work.

And of course, the other item is this legislation that has just been submitted, which we've now introduced, the Housing and Community Development Act of 1993.

People always worry about overloading the circuits, but I do think that this is a reasonable balanced and intelligent legislative package which the Department has sent to the Congress. And I would hope that in the near future and in relative short order, we can examine these issues and the proposals, and move ahead in addressing these matters.

Now next year, we'll have to do major authorizations because of the expiration of the authorizations under much of the existing legislation. But I do think the Department needs, as promptly as we can reasonably do it—and understand obviously we're going to have to work through it—but as promptly as we can reasonably do it, this limited but important legislative agenda, which they have submitted to us.

So I'm really looking forward to working with you and Senator D'Amato, Senator Bond, and the other Members of the committee in trying to address these proposals.

I've looked over them. I haven't really had yet an opportunity to fully go into them, but I do think they address what people would identify as discrete particular problems that need to be dealt with, to give the Department the tools it needs in order to move ahead. And I hope that we can all join together in addressing that task.

The CHAIRMAN. Well, I think we can. We've had a good record of that kind of cooperation in the past, and I think it's important to continue.

Senator Dodd.

Senator DODD. Mr. Chairman, I've got a statement, and I'll ask unanimous consent to put it in the record.

The CHAIRMAN. Without objection, so ordered.

#### **OPENING STATEMENT OF SENATOR CHRISTOPHER J. DODD**

Senator DODD. I would just add to the comments that have been made, not the least of which, Mr. Secretary, is the good news about your son.



I like some of these initiatives. They're creative, they're imaginative.

In particular, I like the national community development initiative and the community investment demonstration program. I think those are terrific ideas and hopefully we'll be able to test in the coming months whether they'll leverage the kind of private dollars necessary.

I also want to commend you on your proposal for multifamily property disposition. My first reaction, reading it, was disappointment in one way, because we're talking about unloading some housing stock, or putting it on the auction block, and there is still a great need for affordable housing.

But I think, frankly, we've got to face some very tough, hard realities. I suspect that it was difficult to put that proposal together, but it reflects the necessities and needs that we've got to come to terms with. And I think that kind of lean, tough, hard decision-making process that you've engaged in is just the medicine that the doctor has ordered. I commend you and your staff for being aggressive in that regard.

Mr. Chairman, I look forward to the presentations.

The CHAIRMAN. All right.

Gentlemen, let me say, I know each of you have remarks that you want to make, and we're going to make those a part of the record, but I'm going to keep my eye on the clock, because we could be interrupted by votes at any time, and we've got other witnesses that we need to hear on a second panel, and I don't want to run over their time. And I want to leave time for questions of yourselves, so I'm going to ask each of you that are going to speak to keep your remarks to 5 minutes.

I want to ask you to do something else too, and this is a little hard, and I don't aim this at you. I'm going to say it to everybody from now on that comes in. And that is that there is a tendency in Government, because of the need to deal with all of these programs, with their titles and buzz words, there's a certain language that we have to adopt, just in a shorthand form, to talk to one another that most other people can't understand or make any sense out of.

Senator DODD. We don't either, Mr. Chairman.

[Laughter.]

The CHAIRMAN. Well, and increasingly, that is true. And so, what I want to do is I want to ask you today that, you know, when you see in your prepared remarks or it comes to mind, one of the code words we use around here that's sort of inside baseball that normal people and citizens wouldn't understand, I don't want you to use it. I want you to explain what you mean in plain language, so that we can keep a discussion going that's practical and that people can follow. And so, if I can ask you to do that.

Mr. Secretary, who would you like to have go first here?

Secretary CISNEROS. I thought we'd go in the order of the bill. But given what you've just said, Senator, Nick Retsinas starts the most complex, jargon-laden portion of this.

[Laughter.]

The CHAIRMAN. Now there's a great danger in that. I think what happens is, is that I don't want this to be mislabeled as sort of pol-

icy wonkism. It's like a disease and there's too much of it right now anyway, for my taste.

I don't aim that at you as such. I just want to make sure that we strip all that away, and that we're talking in sort of plain, everyday understandable terms.

Secretary CISNEROS. Senator, there are five pieces to this. Nick will start with the FHA piece. Then Joe will proceed to talk about the rent rules in public housing and the crime program. And then Andrew will talk about the loan program for economic development and some technical home adjustments.

All of these folks do a good job of sort of common sense analysis and I trust they will proceed in that way.

The CHAIRMAN. OK, very good.

And we're going to start the clock, then. Go ahead.

**STATEMENT OF NICOLAS P. RETSINAS, ASSISTANT SECRETARY FOR HOUSING/FEDERAL HOUSING COMMISSIONER, HUD**

Mr. RETSINAS. Thank you, Mr. Chairman, Members of the committee.

The problem, in many ways, is large but straightforward, as we discussed at the committee hearing a month ago. There is the growing inventory of properties that we have been unable to sell because of a variety of statutory restrictions imposed by the Congress, as well as our need to preserve affordable housing.

The legislation that we have submitted for your consideration tries to strike a balance. It is a difficult balance.

On the one hand, we have an interest in making sure this property moves because, as I pointed out at the testimony last month, the Federal Government is not a good landlord.

On the other hand, there was a commitment made to low-income tenants and to low-income housing. It is that balance that is so critical.

In many ways, our current situation, to repeat our testimony last month, is one that is bound with paralysis by good intentions. We wanted to do good, Congress wanted to do good, but there wasn't enough money to do all the good we wanted to do.

In fiscal year 1993, for example, we only have enough funding appropriated by the Congress to subsidize the sale of about 1,100 units. In stock today, we have 33,000 units that are required to have such a subsidy.

As a result, we have a growing pipeline, and we have lost our ability to use the tool of foreclosure which, having come from a banking background, is critical to proper lending, not just for this inventory, but for the thousands of projects and hundreds of thousands of units that are insurance in force, that we need to make sure continue to survive and prosper.

The proposed legislation strongly reaffirms our intention to protect the rights of tenants and to preserve affordable housing. At the same time, it is designed to move properties out of inventory. If this plan is approved and implemented, at the end of a 5-year period, we will not have a substantial inventory.

I might caution, Mr. Chairman and Members of the committee, there will always be some inventory in a large insurance fund. But

we want to reach a point where the number of properties coming in are about the same as the number of properties going out. The difficulty now is this growing burden of properties.

Our analysis indicates that under current law, it would cost the Federal Government between \$6-\$7 billion to honor its commitments to provide on-going subsidies to existing tenants.

The proposals we have for your consideration give us additional flexibility. They have the added result of lowering that cost by over \$2 billion. Depending on how some of these restrictions are applied—and as some of you said before, we need that flexibility—the savings could be greater.

The key provisions of this package change the conditions for the sale of subsidized and unsubsidized properties, introducing greater flexibility and savings into the process.

For subsidized developments, that is, developments that have received project-related, project-based assistance, we would continue to provide 15-year project-based section 8 contracts, as per current law, but only to units that are currently under contract.

We would not use this as an opportunity to expand that stock, which was the original, and I might add, parenthetically, noble intention of the Congress.

The major change we propose is in the unsubsidized projects, where we would provide 5-year project-based section 8 contracts for those units current assisted, and only those units.

We would also have the option, or would seek the option of providing 5-year tenant-based or vouchers, if I could lapse into jargon for a moment, tenant-based assistance to eligible tenants. In this way, we protect the tenants, which is at the core of our proposal.

As I said, this proposal is designed to preserve, but unfortunately will not be able to expand housing assistance for tenants and units that do not now receive subsidies. And more importantly, over time, it would substantially reduce the number of section 8 contracts needed to sell unsubsidized properties.

For subsidized projects, we propose to use rent restrictions and tenant-based assistance, such as vouchers, to achieve further flexibility and cost savings.

We are also seeking your permission to revise the requirement that all units remain as subsidized rental housing. We propose that we be allowed to use up to 10 percent of the units in inventory to be sold for non-rental use. This could be transitional housing, homeless shelters, low-income home ownership, office space for social service providers, counseling centers, a wide variety of uses that will be compatible with local community needs.

Also, out of the Secretary's commitment to reduce the spatial separation of low-income people and minorities in urban areas and to encourage income mix, we further seek the discretion to use up to 5 percent of the HUD property of those units to be disposed of for any purpose and not necessarily for low-income use, to reduce that spatial concentration.

This of course would be done in consultation with local governments and low-income tenants. Low-income tenants affected would be assisted through vouchers and through our fair housing initiatives, have greater choices in their areas.



In addition, this proposal seeks to increase our level of contact and communication with State and local governments by providing an earlier opportunity for them to express their interest in acquiring property and to work with us in developing disposition plans.

This, we believe, would enable us to dispose of properties more rapidly to State and local governments or to other purchasers if State and local governments did not have an interest in exercising their right of first refusal.

Another key provision of our legislation are partnerships, partnerships with key agencies to learn from other agencies that are involved in similar kinds of problems. Under this legislation, we would establish demonstration programs that would enable us to work with the Resolution Trust Corporation and State and local housing finance agencies to market and dispose of properties.

We think in this way, by seeking greater flexibility, by reaching out to partners, we can both address this issue of preserving affordable housing and, at the same time, not break the bank.

Thank you.

The CHAIRMAN. Very good.

Mr. Shuldiner.

#### **STATEMENT OF JOSEPH SHULDINER, ASSISTANT SECRETARY FOR PUBLIC AND INDIAN HOUSING, HUD**

Mr. SHULDINER. Good morning, Mr. Chairman, Members of the committee.

I would like to just give an overview. What the sections of the bill that relate to public housing, for the most part, go to is to just enhance the flexibility of the program, to allow the program to meet the needs and the conditions that exist.

The CHAIRMAN. Let me just stop you for a minute. I apologize.

Senator Domenici came in, and it's my practice to call on Members for comments if they have them.

Senator DOMENICI. Where are you?

The CHAIRMAN. Well, the Secretary's made his statement and we're now hearing brief functional summaries from each of the three gentlemen who are with him in the areas for which they're responsible.

Senator DOMENICI. I don't have anything.

The CHAIRMAN. All right, very good.

Secretary CISNEROS. Mr. Chairman, if I may say just one 15-second intervention, by way of introduction of Joe Shuldiner, he's been the Executive Director of the New York Housing Authority and the Los Angeles Housing Authority, the two largest cities in the country.

It is the first time that we're able to document, since the position of Assistant Secretary for Public Housing has existed, that it's been held by a person who has run housing authorities.

It's a major experience background that I think you should know, in order to assess the weight of his testimony.

The CHAIRMAN. I appreciate that point. I think that's a valuable observation.

Mr. SHULDINER. Thank you, Mr. Secretary, Mr. Chairman.

Just again, the object is to have flexibility so that local governments, the housing authorities, et cetera, can address the problems that confront them.

The first and major part of this is to deal with the 30 percent rent rules, which require that people pay 30 percent of their adjusted income as rent. It's this policy that has partially caused some of the warehousing of the very poor that was being discussed.

On a personal note, I did want to mention that Senator D'Amato, during my confirmation hearing, asked me to take a pledge that we would support ceiling rent legislation. And since that was May 24, this is only 2 months later, I think we're trying to respond to that pledge.

Basically, as it is now written, the 30 percent rule provides a disincentive to work. It penalizes tenants who move from unemployment to employment, causing some to decide to separate from their families only so that their incomes will not be calculated as to raise the rent.

Also, the 30 percent rule forces some families, primarily those working families who serve as role models, to move out of public housing because of the amount they have to pay under this rule is more than the units are worth.

Our bill would make two very important changes in these rent rules. We would exclude, for 18 months, the earned income of public housing residents who obtain employment after having been out of work for at least a year. Also the bill would establish rent ceilings regardless of the 30 percent guideline, based on a reasonable rental value of the unit.

In addition to this, we would like to address distressed public housing. Since the 1930's, public housing has been a strong pillar of our Nation's policy toward the provision of housing for society's neediest citizens.

More than three million people are residents of public housing and their average annual income is only about \$6,000. While most public housing is well-maintained, indistinguishable from any other rental housing, and is well integrated into the communities where it is located, we have, among the 10,000 or so developments, some that are in desperate need of major changes. We have some highly visible housing developments that are intolerable and are the home of seemingly intractable living conditions.

To revitalize the Nation's distressed public housing, this bill would merge the Department's two separate programs, and I'm just referring to them by their names, HOPE VI and section 24, that are aimed at revitalizing distressed public housing developments.

The elements of this merger include:

Deleting the requirement that the Secretary designate severely distressed projects.

Increasing the planning grant dollar cap from \$200,000 to \$500,000, especially to help some of the larger housing projects.

Requiring grant applications to include community service activities in their proposals, such as job training, opportunities for completing high school requirements and other programs for disadvantaged youth.

Deleting the requirement for national geographic diversity among applicants will allow us to put the money where it is needed most.

And giving public and Indian housing authorities more flexibility in planning for the future of their stock by making changes to demolition and replacement requirements in section 18.

The third component to the legislation deals with COMPAC, the Community Partnership Against Crime program.

Since 1988, we have had the Public Housing Drug Elimination program, which has been combating drug trafficking in public and Indian housing. This has been extremely successful, especially in leveraging increased law enforcement involvement.

Under this legislation, COMPAC would be expanded to cover all types of criminal activity, not just drug-related criminal activity. We would also broaden the program to include among eligible activities, such things as community policing programs, youth sports initiatives, anti-gang activities and resident services.

We would provide greater certainty of funding to those public housing authorities that have serious crime problems and can demonstrate success.

Our revised COMPAC initiative would also place a greater emphasis on promoting community involvement and comprehensive, long-term strategies. We want to build, through this reworked program, partnerships between tenants, public housing authorities, and neighborhood organizations.

COMPAC is authorized at \$265 million for fiscal 1994, an increase of \$90 million over this year's fiscal funding. For fiscal 1995, it is authorized at \$325 million.

And finally, Mr. Chairman, the Housing and Community Development Act of 1993 proposes to freeze the base on which the administrative fees are calculated for the section 8 rental assistance program.

It has become apparent that linking fees directly to the two-bedroom FMR, fair market rents, units works less well in a time when dramatically rising and falling FMR's bear little relation to actual changes in the cost for administering the programs. This maintains the status quo until the necessary changes can be made.

Again, we are committed, as part of HUD, to making public housing residents more comfortable, and public housing communities more stable and livable. This legislation is a very solid first step that takes us in that direction.

I thank you for your time, Mr. Chairman, Members of the committee, and I look forward to working with you on these issues.

The CHAIRMAN. Senator Domenici, I'm going to also call on Senator Kerry if he has an opening comment. Did you want to make an opening comment?

#### **OPENING COMMENT BY SENATOR PETE V. DOMENICI**

Senator DOMENICI. Yes, I'd like to. It will be brief, and I have to go to the floor shortly to finish the bill that's there.

First, Mr. Chairman, I appreciate the opportunity to welcome the Secretary once again, along with his assistants.

Let me begin, Mr. Secretary, by telling you that I think you're on the right track. We seem to have created for ourselves a kind



of cycle doomed to failure by legislating preservation standards which have proven too costly to live up to, and they've limited HUD's ability to make prudent business decision regarding property disposition. That's not the whole problem, but a part of it.

From what I've seen so far, it indicates to me that your commitment to work for some common sense responsible solutions to the multifamily property dilemma and what I've seen, I like. And I hope I can support it.

Now you've proposed some modest but meaningful modifications to these preservation standards, and I would hope that all Members of this committee would be willing to work with you on this important reform.

Frankly, I must say, however, I know nothing about the budget numbers, and I really think the effect on the budget, you have to get us all that.

You claim you're going to save money. On the other hand, you need money, there's no doubt about that, for some of the extensions that you're going to have, and I'd like to see how you're going to save and what you're going to spend.

In addition, it seems to me that one of the problems, and I hope you will address it so that we will know, when we start working on the bill, you're going to reduce budget authority, from 15 to 5 years, and that's a nice way to make a budget number less. We all know that.

Fifteen years, you've got to carry the whole authority, when you can carry it at one-third or less, I think we've got to know what that bodes for the next 20 years, because eventually, you've got to pay in any event, whether it's 5-year or 15-year periods. And as they come due, we've always extended them. So how big will the pool be that we're extending, which could have a very big impact on deficits in future years?

Aside from that, I look forward to working with you, and Mr. Chairman, thank you for giving me a few minutes.

The CHAIRMAN. Thank you, Senator Domenici.  
Senator Kerry.

#### OPENING STATEMENT OF SENATOR JOHN F. KERRY

Senator KERRY. Mr. Chairman, thank you. I'll be very brief also.

I apologize, first of all. I, as with so many of us and Senator Domenici, I've got this bill on the floor, plus a couple of other hearings.

But the legislative package that's been put together here has many important elements. I think, from my perspective, perhaps one of the most important, though, is the effort to clean up the billions in the multifamily property area that we discussed at a couple of prior hearings here, and which the Secretaries have inherited, from structural problems, partly created by the legislation of the past, but also by administrative and underwriting decisions that have been made which really have not been very responsible.

We're all aware of the level of liability that we hold as a result of that. I guess almost close to \$12 billion in contingent liabilities and \$8 billion in current holdings, and so forth. Some 371,000 units, I think, currently held or so, and some 700,000 or so down the road here, exposed, which is not insignificant.

What I would applaud in this approach is the sensitivity to create a balance, I think, between trying to get these properties back into the marketplace, which we want to do, but at the same time, respecting what HUD is supposed to do with respect to multifamily housing and renters. And I think there is a balance there, and I congratulate you on doing that.

What I think you have done particularly well in this is stop the bleeding to the Treasury, which is critical that comes from the perverse incentives that we have today to provide property owners a reason to default, but also simultaneously to withhold money from the Government, which is just wacky, which we talked about previously. And I think you've done a good job of dealing with that, while simultaneously balancing the need to keep as many affordable units open as possible.

I also congratulate you on taking control over the decision as to when a subsidy is given, and not leaving that on automatic drive. And I think that's a very important component of this.

I do have a concern, and I hope I'll have time maybe to come back and explore it a little, though I think—I'm told, and I haven't had a chance to read it yet, but maybe, Secretary Retsinas, your testimony may deal with this section 8 issue. But I just want to explore the issue whether HUD is going to be able to dispose of all the multifamily units that it now holds, or whether, because of that section 8 catch-22, you're going to be forced to hold onto some of it. And I think that's one of the issues of concern.

But I do congratulate you for, you know, we've had rhetoric up here before, and we've had a lot of promises of dealing with this. This is really concrete and you are dealing with it. And I congratulate in grabbing this thing by some very uncomfortable tentacles and starting to deal with it.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mr. Cuomo.

#### **STATEMENT OF ANDREW M. CUOMO, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HUD**

Mr. CUOMO. Thank you, Mr. Chairman, Senators.

If the bill that you have before you on the FHA side is addressed to fix problems that were inherited and which are pressing, the so-called 108 proposal you have before you is designed to seize the opportunity to get a minor legislative change that we think would have a major programmatic impact.

The area is economic development, which is a priority for the administration and for the Secretary in HUD's quest to provide economic lift to the people it serves.

What the proposal you have before you would do, in essence, is to create a \$2 billion low-interest loan guarantee fund that local jurisdictions could use to spur economic development in their regions.

It does so with no additional money, understanding the fiscal constraints that we're now under, we tried to be somewhat creative and combine existing resources and existing programs. That brought us to put together the so-called 108 program with what we called the UDAG recaptures.

In essence, it takes what is now a grossly under-utilized program, called the section 108 program which allows local jurisdictions the ability to take loans to spur economic development. The program has not been used primarily, in our opinion, because the loans that HUD has been offering local jurisdictions basically go out at market rate, and there was no financial incentive for the local jurisdictions to get involved.

At the same time, you have what's called the UDAG recaptures. The UDAG program, as you well know, is now defunct. There are funded projects that were stalled or never came to fruition to the funding from which can now be recaptured.

That is an on-going process. It has been going on for the years that the program was in existence and since termination.

What we propose is to take the money that is coming back from UDAG and use it as a subsidy in conjunction with the 108 program. We would take the recaptured funds and use them as grants to localities to use in combination with the 108 loan fund. In essence, we would get a \$2 billion loan fund with a \$150 million loan subsidy, which is the estimate for the UDAG recapture.

That would then allow us to offer a \$2 billion loan fund at about 3 or 4 percent interest. It would, for the first time at HUD, offer an economic development vehicle that might be attractive to the jurisdictions.

The legislative change is a technical one which would allow the UDAG recaptures to be used in conjunction with the 108 program. It would allow the major policy shift to have the 108 program in position that we think we could market, and which would be attractive to jurisdictions.

The second issue that I'm to address is the HOME program. When the Secretary came up for his confirmation, there were many questions about the spend out rate and the obligation rate, commitment rate of the HOME program, questions that it might be somewhat slow at that time, and questions to the Secretary about what efforts the agency would take to expedite the HOME program.

To that end, we made as many regulatory changes as we could. We issued a rule in June, which makes the regulatory changes to simplify the HOME program.

What you now have before you are statutory changes that we think could make the program even more attractive and even more efficient and effective to its users.

The main change is a reduction of what is now a two-tier match from the locality to a one-tier, flat 25 percent match. It would obviously reduce the amount of money that local jurisdictions would be required to put forward to match the Federal money and make the program simpler to administer generally.

That is the most significant of the changes. The others are more technical in nature. In total, there are ten changes which we have spent several months working on, not only within the agency and Congressional staff, but also with the users of the program, the public interest groups, the not-for-profits, and we think the changes that have been presented to you basically are approved by consensus by the majority of the users. And we would ask you to favorably consider them.



Otherwise, whatever questions you'd have, I'd be glad to answer, and I thank you for your time.

The CHAIRMAN. Very good.

I have a number of questions I'm going to have you answer for the record. I'm going to only ask two now, and then go to my colleagues. And then, with my eye on the clock, I want to get to, as quickly as we can, our other witnesses that are here this morning.

Mr. Secretary, let me address these to you, and then you may want to have your colleagues participate too, as you will.

It's been reported that the losses on HUD's multifamily insurance programs could total as much as \$11.9 billion, as hundreds of apartment building owners default on these Government-insured mortgages.

I've two questions in that context. How will the provisions in this legislative proposal stem the potential losses in HUD's multifamily insurance programs? And No. 2, what additional steps, beyond this legislative proposal, are needed to reduce future losses in this area to the taxpayer?

Secretary CISNEROS. Mr. Chairman, that number of \$11 billion was derived by a survey of existing—a sample of existing developments, and then a suggestion from that, that something on the order of 23 percent of them were in some jeopardy, and extended then to the whole portfolio, just a simple aggregate application of 23 percent to the whole portfolio resulted in the figure of \$11 billion.

What this initiative would do is allow us to work on, not only on what's in the inventory now, but what is expected to come into the inventory.

It's now something like 31,000 units. Current projections are that that will grow to 70,000 units. It's almost inevitable. That is to say, they are already at the edge of the cliff or on the way over the cliff already, and they're going to hit the bottom, 70,000 units.

This initiative allows the level of discretion that would allow us, in effect, to work through this problem and try to limit the loss to something on the order of about \$4 billion, which can be handled with slight increases, moderate increases over the level of appropriations for these purposes in recent years.

As I say, we had a staff meeting this morning, and I asked the question, at the end of 4 or 5 years on this, 1998, where will we be. And as you heard Nick Retsinas say, we ought to be able to wipe out most of the inventory backlog, get into a position to where what is going, what is being sold is roughly equivalent to what is coming in, and still reasonably maintain people in low-income units.

We'll be criticized for this, to put it in stark terms, both from the left and the right on this question.

One critique, from the left, we can anticipate will be that we haven't maintained every single possible unit as low-income, but that's what drives the cost to unreasonable levels. The money doesn't exist, and if we held ourselves to that position, without money, then we watch the units simply decline, not only for the people living in them, which is a hellish existence to live amidst vacant units that are taken over by drug lords and so forth, but also for entire neighborhoods.

So that's simply an impractical approach, because there isn't enough money to do that, and there's not going to be, and we need to face up to that, not even close.

The criticism from the right conceivably would be, well, then you ought to just sell all the units. But that begs the question of the 350,000 families that are now in those units. So what do we do with those people, how do we maintain them in some level of low-income housing.

We think we've struck a middle ground here.

And now let me ask Nick to quickly answer from his perspective.

Mr. RETSINAS. Thank you, Mr. Secretary.

The legislation here, as you correctly allude to, Mr. Chairman can only be part of a problem-solving approach we're trying to take to the inventory problem.

As your hearing pointed out, and as our audit pointed out, we are faced with a loss that was a real loss for accounting purposes on September 30, 1992, of \$11.9 billion.

This legislation, if enacted, will give us an additional tool to work with the existing property owners.

As I said before, in my opening statement, it would give us the tool of foreclosure, which we would hope never to exercise, or rarely exercise, but one needs that tool to encourage cooperation.

The \$4 billion the Secretary referred to relates to the additional subsidies. That is less, however, than the \$6.5 billion that is currently called for in existing legislation.

In addition, very briefly, we have taken, under the Secretary's leadership, a number of additional administrative actions. We have crafted, and now have out in the field, a much more aggressive workout policy, based on the premise that, generally speaking, we are better off when these developments stay in private hands, rather than the Government's hands.

We are exploring the notion of asset sales, both developments and, more importantly, the notes, if you will, to see if we can recover some of the cost and make a dent, and make a dent on that problem and that loss that faced us as of the end of last year.

The CHAIRMAN. Let me pose one other question.

We've made the proposal with regard to the section 108 program, by funding what you're talking about here, through the recapture of UDAG grants, these Urban Development Action Grants that were previously awarded to distressed cities, but which, for one reason or another, stalled.

I have some concerns about that. I mean, I know you're hemmed in in terms of where there might be money to do this, but I want to ask you to respond to these questions. And let me put them all out there, and then you can respond to them separately or together.

Current HUD practice permits grantees of the UDAG's to convert troubled UDAG products into other "integrally related" economic development activities. I'm wondering what actions the Department has taken to assist cities in converting UDAG's for use to other local projects that would fall within that definition without simply recapturing the funds.

And related to that, these other two points.

As a means of preventing further decline in these distressed communities, which have already been identified by the fact that they've received HUD UDAG designation for specific projects, should the Department allocate the assistance then for the new initiative on the basis of need, so that you try to kind of stay where the money was originally focused.

Does it make any sense to allocate some resources to those distressed communities that will lose their UDAG's to the extent that the money is moved elsewhere to some other place?

Secretary CISNEROS. Mr. Chairman, let me ask the Assistant Secretary to respond, but let me say that the money that's being talked about for this purpose has already been recaptured. It is in effect in a fund at HUD, and so it is not as if money is being taken from the communities and they have to go through that exercise. This is money that's already been recaptured.

The rest of the points, let me get the Assistant Secretary to respond.

The CHAIRMAN. All right.

Mr. CUOMO. I would point out, as the Secretary just mentioned, this is an on-going process that is going on, will go on, whether or not this committee looks at the legislation.

You have already, over the life of the UDAG program, you've recaptured about \$1 billion from about 760 projects, which never went forward.

So you have 760 projects that came back, about \$1 billion, and the normal length of time that a project would be allowed to come to fruition was about a year. The remaining projects have been out there for 3, 4, and 5 years. There's about \$200 million in total that is not being used.

The HUD staff has been working with these programs for three or four times as long as they worked with any other program, to try to find out ways to make the program work the way it was designed, or integrally related uses.

As far as the need question is concerned, as the 108 program utilizes the CDBG, Community Development Block Grant regulations and indicia, that is a determiner of need.

No. 1, to be an entitlement jurisdiction under CDBG in the first place. No. 2, the amount of 108 money they are entitled to is a function of their CDBG allocation, which, as you know, is a formula to discern the need of different communities. So it is already directly linked to need.

Secretary CISNEROS. Mr. Chairman, I might say, I think it would be difficult to try to handle this 108 fund as an entitlement type program, because it really is a loan, and therefore it requires a viable project by a fairly sophisticated community that can take advantage of a very low-interest loan initiative.

That is to say, their project is going to generate some capacity to pay back. It makes a difference that you have 3 or 4 percent money versus higher market money, but it's not money that can somehow just be made available as a grant. And therefore I think it's going to be pretty self-selecting in terms of who can use it. Communities that have viable projects that can work this way will come forward, and it's really not our place to distribute it. They will I think come forward.



The CHAIRMAN. Well, we could pursue that further.

Senator BOND.

Senator BOND. Thank you, Mr. Chairman.

Mr. Secretary, to focus on your proposal, and this is where I may even need to have some help making sure I understand it. It seems to anticipate that 100 percent of units in section 202, 236, and 221(d)(3) BMIR housing be maintained as low-income. Is this a fair characterization? Are there exceptions? What percentage of the housing would not have to be maintained? I think I heard a figure of 10 percent. But first I'd like to know if this is a correct characterization of it. If so, how would you plan to pay for it?

Mr. RETSINAS. If I may, Mr. Secretary.

Senator in large measure, it is correct, but there are some very important exceptions to that, some of which you point out.

As I noted, the legislation seeks additional discretion to give the Secretary the authority to remove units from a previously subsidized condition.

We mentioned the situation where there may be a finding that the continuation of a subsidy in a particular location would exacerbate a problem of low-income minority concentration, and we ask for discretion to remove units from the inventory, if you will, in that situation.

And we also ask for discretion in what we call soft markets. That is to say, where there is a conclusion that there is ample additional private housing, and it would not be necessary or appropriate to continue a project-based subsidy.

In the subsidized mortgages that you mentioned, most, though not all of the tenants, are income-eligible tenants as it relates to low-income. In some of those mortgage programs, they're required to be; others, they could have increased their income.

Right now, the Federal Government, as landlord for those properties, is required essentially to operate its own mini-section 8 or rent subsidy program. That rent subsidy program is the difference between the operating expenses, the repairs necessary on those properties, and whatever revenues or rents are garnered from the tenants.

That is a requirement that we pay as the owner, as the landlord of that property. It is our proposal, instead of paying that money for that purpose, we use those funds to allocate to the tenants, whether they be through vouchers in the situations I mentioned before, or to project based to preserve their properties.

The difficulty with the current system is spending the money now as landlord. This still just continues the obligation because, as long as the statutory restrictions remain, at some period of time the Government will not be the landlord and we would still be required to have that obligation for those ongoing subsidies.

What we would like to do is expedite the disposition. So we hold these properties for as short a time as possible and move them back into private hands.

Senator BOND. My concern, Mr. Secretary—and I believe that that answer goes some way toward it—is, as I indicated in my comments this: That at least for the period of time in which the property is held, that it contemplates keeping the projects as a grouping of the poor in one particular area.

You yourself have mentioned the need to get some kind of income mix. How does this proposal enable you to work toward income-mixing in the formerly subsidized housing? How do you see that working?

Secretary CISNEROS. One of the answers is that it allows for some discernment. So that instead of having to take an entire building and handle every single unit as subsidized and for the very poor, it would allow an assessment of what actual units, what actual families in there are presently subsidized and ought to continue to be subsidized, and allows the landlord, the owner, then to look at the remainder of the units and rent them at market rates, which then carries the building and which brings income mix at the same time. That is the short answer to the question.

Senator BOND. Short answer? There is nothing wrong with those. Occasionally, they help.

Secretary CISNEROS. We have to make sure it is the right answer.

Nick.

Mr. RETSINAS. Pretty good.

Senator BOND. I will take that one to the bank.

I am concerned about the Discretionary Grant Program out of the General Insurance Fund. As I understand it, the General Insurance Fund is a mandatory budget program. How can you justify running a discretionary housing assistance and rehabilitation grant program out of a mandatory spending program?

Secretary CISNEROS. We knew you had some concerns about that, Senator. Let me just say this: What that fund is for is for repairs. Now these facilities are in bad shape. I don't know whether you have identified any in your particular State, or in the communities that you work in, but I promise you when you see some of these buildings, they are nothing to be proud of that the Federal Government has had any association with them.

Senator BOND. You have been to LaCleda Town?

Secretary CISNEROS. And, frankly, LaCleda Town does not look as bad as many that I have seen.

Senator BOND. Right. We have got some not too far away.

Secretary CISNEROS. I have seen some, for example, along the Southwest Freeway in Houston which were built with, the only thing you can say, is shoddy construction to start with, and they have done nothing but deteriorate over the years.

It is a mandatory obligation. In a manner of speaking, factually speaking, it is a mandatory commitment. We cannot leave them in that shape. We have no discretion on this subject. We are either going to repair them, or watch their continued decline.

Now I mentioned earlier, and I mentioned yesterday to a group, that one of the options that we took to OMB was to handle this whole thing on the mandatory side because we view this as a mandatory obligation.

In other words, this is not something that HUD has any discretion over. But recognizing the concerns about the budget, and particularly the real scrutiny and appropriate scrutiny that is being brought to budget considerations at this time, we discarded that option. It was never finally accepted as a way to look at this whole problem. So we are handling it on the discretionary side.

That forces us to come up with offsets which we will have to do for the additional money that we are talking about. That is an awfully heavy burden for HUD to have to come up with offsets for something that is a rock-solid obligation that we have got.

We have got very little discretion on this. But where the remains are concerned, we do think that that, by every definition of what is obligatory and what is a commitment and what is mandatory, that the repairs ought to fall in that category.

Nick, do you want to say anything?

Mr. RETSINAS. There is also one positive byproduct, I believe, Senator, of the proposal.

If the proposal is accepted and implemented and the Secretary is right that we have to proceed carefully, and we are in consultation with the Office of Management and Budget and the Congressional Budget Office on the scoring for it, but if it were to proceed, one of the conditions of its going forward is if the State and local government acting as our agent, so to speak, to carry out these needed rehabilitations, if they were to do so, we would not have to attach the long-term section 8 project-based assistance.

In that sense, then, we are at that point in time of severing that long-term financial obligation and allowing the property to be fixed up at a discounted price and still allowing its affordability to low-income tenants.

That is the positive byproduct of that kind of proposal, that it does cut that umbilical cord in terms of the long-term subsidy.

Senator BOND. Mr. Chairman, I appreciate the opportunity. I have gone over my time, and I thank you.

The CHAIRMAN. Thank you, Senator Bond.

Senator Boxer.

Senator BOXER. Thank you, Mr. Chairman.

Mr. Cuomo, this \$2 billion program, give me an example of what might be an exciting use for it and who would be the person who would apply? What entity would apply? What are some of the ideas that you have in your mind?

Mr. CUOMO. Senator, the way the program would work is, the local jurisdiction has to come forward for the loan.

Senator BOXER. You mean cities, counties?

Mr. CUOMO. Right. Any type of jurisdiction. Any jurisdiction receiving CDBG's, that is CDBG-eligible, Community Development Block Grants.

Senator BOXER. It could be a nonprofit?

Mr. CUOMO. Right. The jurisdiction has to actually apply for the loans. It could be a city, but it can be a city on behalf of an activity that creates economic development, not-for-profit housing rehabilitation, et cetera, and private sector companies.

So any city could come forward on behalf of a private-sector company that it is trying to lure into their jurisdiction, or to expand, or to create new jobs, to acquire land and bring down the cost of construction of a new plant, for example. It could be on behalf of a not-for-profit that is trying to build housing for the homeless, any one of a number of applications.

Then what we are saying is, we would take the money that we are capturing from UDAG and allow the jurisdiction to use that



money flexibly in combination with the loan in a manner that best fits that specific application.

If a city is trying to attract a business, and the problem for the business—as in the case of many micro enterprise zones, they cannot pay the loan for the first few years because that is when they are getting up and going, and they will not have the cash flow to pay the principal and interest to amortize the loan on the initial years—they can use it for that purpose. Or they could use it to write down the interest on the loan; or they could use it as a security.

So we are trying to say that we will leave the flexibility to the locality. We will put the tools on the table and let them fashion it. But the thrust of the activity would be an activity that generates economic development.

Senator BOXER. So more than housing for the homeless, you are basically looking for economic development?

Mr. CUOMO. Yes.

Secretary CISNEROS. Senator, let me share with you a concrete example of a Florida situation that has come to our attention that I think would be instructive for the California situation, particularly in some of the central city areas in California.

Mr. CUOMO. I will try to do this without using the name of the company, because it is still privileged at this point, but there is a jurisdiction in Florida that is trying to attract a major corporation which is now going into the eye glass manufacturing business. But they are looking at a possible site in Florida, or overseas. The jurisdiction is trying to come up with a package that they can offer the business to attract them there.

The resources that a local government has are obviously limited—the local tax incentives, local tax abatement.

What this would do is allow them to take a loan and assist the company with the construction of the actual plant. The company itself would be responsible to repay the loan, but the jurisdiction is taking the loan on behalf of the company.

That kind of application again is left to the specific situation that is presented to the jurisdiction for all activities, the essence of which is the creation of economic activity.

Senator BOXER. I want to ask a question about the RTC disposition of their housing units.

A number of housing groups in California have been frustrated with the RTC Affordable Housing Program because the provisions for the disposition of single-family homes failed adequately to take into account significant differences in housing markets across the country due to the price ceilings of the program which prohibit California agencies who are burdened by a very high-cost market from benefitting from the RTC Affordable Housing Program.

The question is: Can you elaborate on the demonstration program you have proposed that would enable the RTC to market and dispose of HUD-controlled multifamily properties? In particular, how would it affect various regions within the country?

Would that be Mr. Retsinas?

Mr. RETSINAS. Senator, I would be happy to.



You are right, I am aware of the concerns of the RTC program. While they have done a lot of good work, there have been areas at the same time where they have been less than successful.

Our legislation proposes the authority to enter into demonstration agreements with them. It is unlikely that in many areas of the country that would be the appropriate way for us to proceed.

We think there are other areas perhaps with softer markets—that is, markets that are not as tight perhaps as California's—where that kind of demonstration makes some sense.

What we would like is, we would like one more tool. It would only be in selected areas. We do not expect widespread use. If it works, we would like to expand it.

It is a demonstration in selected markets of the country.

Senator BOXER. I would like to ask one last question of Mr. Shuldiner.

That is, when the Secretary came forward for his confirmation, I pressed him pretty hard on two issues. One was Veterans' housing. The other was the 40,000-or-so units that I understand are just sitting out there without being used because they are in such terrible condition. Do you cover that in your plans, to rehab these units? What is your plan for those units that have no one living in them and they are just sitting out there?

Mr. SHULDINER. Congress has already funded for this year or next year approximately \$200 million, \$100 million each year, to do vacancy reduction.

We have basically identified the authorities that have the most vacancies by both percentage and absolute numbers. We have contacted them to try to determine what is the problem. Why is it that they are unable to address these? And, again, we identify those who actually need money.

We are presently doing assessments of approximately 68 authorities that have a large segment of that stock. Based on that assessment, we will be issuing a notice of funding availability in the next couple of months, again based on what we have found is the problem and what the capability of the authorities are to actually address it. This is a very high priority for us. It is something that we are working on. At least at present, we are not looking for additional legislation to address it. Hopefully we will be able to show some results.

Senator BOXER. I would love to be kept in contact with you on this issue, like how many units we are putting out there.

Thank you, Mr. Chairman.

Mr. SHULDINER. It is a big priority for us.

Secretary CISNEROS. It is one of the very highest priorities of the Department.

Senator BOXER. Thank you very much, Mr. Chairman.

Senator SARBANES [Presiding]. Thank you, Senator Boxer.

I will be relatively brief. We have another panel that has been waiting patiently all morning. I will put just a few questions to you.

First of all, Mr. Secretary, I want to just generally expand on the statement you were reported as making in the morning paper.

You talk about this multifamily problem and disposing of the acquired property. You said, "This is the tip of a big iceberg directly

in our path which will hurt the Department and administration badly if we are not able to get a handle on it." I would just like to add to that Congress and the country. Everybody is going to be hurt if we do not get a handle on this thing. I think that is recognized up here. I certainly hope that it is.

Second, we held hearings here, and I hope that has helped to contribute to this process, one on public housing. We did one on the HOME program, and we did one on the Multifamily Disposition problem. Those are essentially the three areas that are the main focus of this legislation which you have submitted to us, as I understand it.

Secretary CISNEROS. Yes, sir.

Senator SARBANES. Now let me ask this question.

Taking this piece of legislation that is now before us and the legislation that passed the House, the three items and the one item that the House may be acting on, which is the use of some Pension funds for housing—we are going to hear from the next panel on that—is that essentially the Department's legislative agenda for, as it were, the near term so to speak?

Secretary CISNEROS. Senator, I wish I could tell you that it was. But what these represent is what one might call, with the exception of the FHA initiative which is an emergency, "the iceberg problem."

The others are in the category of targets of opportunity to do things that we need to do to build for the future. But also they are characterized by what could go forward in a non-authorizing year. In other words, they are things that could go forward because they have a relative consensus about them. They are relatively straightforward and less complex.

There are other things that we have not included in this bill which have barnacles on them, which are going to be difficult sells, but which would legitimately be part of either a later legislative measure or, more likely, a 1994 reauthorization process.

Senator SARBANES. But the things you really need in 1993 now to just kind of clear the decks on some of these problems are in a sense now before the Congress?

Secretary CISNEROS. That is correct, sir.

Everything that we could reasonably ask for and have an expectation of getting and need is here. I will tell you, we would like to have included some FHA single-family initiatives. We feel strongly that in due course we need to ask for increases in loan limits and the organization of some no-down-payment FHA programs in order to get FHA really back as a full, positive force in the single-family market.

But we also know what the system can bear. We have put that onto a slower track. At this point, I do not know what that means, whether we have any reasonable prospect of considering that this fall after health care and the other measures the administration will bring forward, or whether it is more prudent to simply wait on that.

Senator SARBANES. A response by this committee that sort of took these other measures that were up here, and then the measure that has just been submitted, and put those all out on the table—

Secretary CISNEROS. We have a lot to work with.

Senator SARBANES. —and then tried to look at all of those and moved all, or as much of it as we could come to closure on here, and assuming you moved a very substantial part of it, not all of it, I think we ought to look at it all. Hopefully we can move all of it, but in any event a very substantial part of it.

That would respond to what you would see as your immediately stated agenda? Is that a correct statement?

Secretary CISNEROS. Yes, sir. We greatly appreciate your leadership in helping us get to this point.

Senator SARBANES. I think that is reasonable. I think we will be able to do that. I mean, we have Hill hearings on a number of these things already almost in anticipation.

Of course we are going to hear from a panel, as soon as you all leave, that will do a little more on that to satisfy everyone, but we are only here for another week. But if not right now, not too long after we return in September we will be able to start processing this legislative agenda.

Secretary CISNEROS. When you look at the big picture of what this measure and the other four represent, it gives our folks a lot to work on. There are homeless funds, discretionary homeless initiatives, there is the Pension Fund initiative, there is the community development effort—

Senator SARBANES. We do not want to be too hard on you, but we do want to keep the monkey on your back so to speak. So we want to take this, clear these legislative obstacles, and do it and in effect put the ball right back in your court and say, all right, you know, you wanted these tools and we have given you these tools, now let us see what you can do with them. Hopefully, we will be able to do that.

Secretary CISNEROS. We are in a position of a player who keeps saying "give me the ball."

Senator SARBANES. Yes. OK. Fair enough.

Let me ask a substantive question on the multifamily deposition, because I see there is a comment in the press today that says it is not clear how Congress and advocates of low-income people will respond to the proposal.

They expressed concern, but they said they were not yet familiar with the details of the plan.

As I understand it, what you are going to try to do under your proposal is that units currently receiving an underwrite would continue to do so. Is that correct?

Secretary CISNEROS. That is correct.

Senator SARBANES. The big change is that now, under existing law, if you do a disposal in which more than half the units have an underwrite—let us say 51 percent—

Secretary CISNEROS. Correct.

Senator SARBANES. —and you then have to put an underwrite on all of the units?

Secretary CISNEROS. Fifteen-year.

Senator SARBANES. I mean that is a nice principle, and I helped to put it into the law—

[Laughter.]



Senator SARBANES. —but the problem is it is not being realized in fact. Well, there are two problems.

One is, it is not being realized in fact because we do not really have the money with which to deliver on that promise——

Secretary CISNEROS. No, even close.

Senator SARBANES. —and, two, the requirement becomes an inhibition to the disposition of the stock in a more reasoned and rational way and therefore is building up this \$12 billion problem which may escalate to some bigger figure, and so forth and so on.

Secretary CISNEROS. It has a counter-intuitive effect, because when trying to do good, what we end up with is being unable to act on properties that slide into absolutely unacceptable conditions for the people who are in them whom we are trying to help in the first place.

Senator SARBANES. Exactly.

In addition, we seem to be heading for another major financial breakdown. Of course if that happens, it is going to have a broader impact than these particular projects themselves.

Secretary CISNEROS. Right.

Senator SARBANES. Well, I think it is important to get that point across so that it is understood. I mean, there is a difference between being required I think by reality to back off of a promise that you have not been delivering on in any event, but whose existence prevents a rational addressing of the situation.

There is a difference between that and actually pulling an underwrite which is in fact being made available currently. I understand that the latter will not happen. I think it is very important that the latter not happen. I understand that that is correct.

Secretary CISNEROS. That is correct, Senator.

Senator SARBANES. That is a very important point, and I am pleased to be reassured on that issue.

Gentlemen, thank you very much. You were a very good panel. We appreciate it.

We will take about a 1- or a 2-minute break so the next panel can get into place.

[Brief recess.]

The CHAIRMAN [Presiding]. The committee will resume.

Let me invite those in the room to find seats. Let me have come to the witness table Mr. Walter Webdale, Stephen Coyle, Maryann Russ, and Marilyn Melkonian.

Let me welcome our distinguished second panel to the committee. This panel is composed of what I consider to be experts in a wide array of HUD programs affected by the proposed Housing and Community Development Act of 1993, which is of course the focus of our hearing today.

I think these individuals should be given considerable recognition just for their willingness to appear today on short notice, and I am very appreciative.

I want to acknowledge the fact that they have had a very short period of time to review the legislation, and they have done that the best they can given the time pressures.

The credentials of this panel, however, suggest that their testimony will provide us with an important insight, and I very much want to have that on the record now, and certainly allow them the



opportunity to elaborate on that in the days ahead as they have a chance to further consider this and to discuss it with others.

Marilyn Melkonian is President of Telesis Corporation, which is a real estate firm based here in the District, and previously was the Deputy Assistant Secretary of HUD's Federal Housing Administration during the Carter administration.

She certainly has vast experience in developing low-income housing and in working with Congress and HUD in shaping housing policy. So we are interested in your testimony particularly on the property disposal issue.

Walter Webdale is the Director of Housing and Community Development in the area in Fairfax County, VA. He is here today representing five local government groups, including the National Association of Counties, the National League of Cities, the U.S. Conference of Mayors, the National Community Development Association, and the Association of Local Housing Finance Agencies. I am not sure we have ever had anybody here with more than five hats on at one time, or maybe six, but that is pretty good representation.

I think Mr. Webdale can give us particularly good insight into the proposed changes in the section 108 loan program and changes in the HOME program.

Maryann Russ is the Executive Director of the Council of Large Public Housing Authorities and a former Public Housing Authority Director in Wilmington, DE.

Ms. Russ will share with us her views on those portions of the legislation that speak to public housing, rent reforms, the consolidation of the severely distressed public housing programs, and the COMPAC proposal.

Finally, our fourth witness is Mr. Stephen Coyle, who is Chief Executive Officer of the AFL-CIO Housing Investment Trust. The Trust is an important investment company specializing in low-income housing investments made on behalf of contributing pension funds and he will explain from his vantage point the nuts and bolts of the Department's pension plan Partnership Program.

I want to welcome you all and thank you for taking the time to be here today.

Why do we not just go right down the table. Mr. Webdale, we will start with you. We will make your full statements part of the record.

In the interests of time, I am going to have you summarize this as appropriate.

**STATEMENT OF WALTER D. WEBDALE, CONFERENCE OF MAYORS, NATIONAL LEAGUE OF CITIES, ASSOCIATION OF LOCAL PUBLIC HOUSING AUTHORITIES, AND NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION, FAIRFAX COUNTY, VA**

Mr. WEBDALE. Thank you very much, Mr. Chairman. I am certainly pleased to have this opportunity to testify before the subcommittee.

As you mentioned, I represent five groups. I think Andrew Cuomo sort of summed it up: I am a "majority of the user groups." These national organizations of elected and appointed officials represent hundreds of communities that have strongly supported the

enactment of the Cranston-Gonzalez National Affordable Housing Act of 1990 which created the HOME program and continue to stand behind the HOME program as a key to addressing our Nation's growing housing prices.

Without HOME, communities would be unable to leverage the kind of public and private resources for affordable housing that they are able to access, and in fact many of the projects that are now being assisted would not be able to move forward at all.

Mr. Chairman, thanks to the work of this subcommittee and the enactment of the Housing and Community Development Act of 1992, several of the programmatic inconsistencies found in the original HOME legislation were eliminated. In addition, the recently published Interim Rule provides the necessary conforming changes and additional regulatory refinements to the HOME program.

Although these accomplishments, coupled with a cooperative partnership between the national organizations and HUD have served to expedite the use of HOME funds already, we believe that there still are statutory and regulatory modifications which will further enhance the flexibility and responsiveness of the program nationwide.

In the context of this collaborative and coordinated environment of the national organizations representing local and State officials, as well as nonprofit housing organizations, came to an agreement on a consensus package of statutory improvements to the HOME program.

We are pleased that the administration has included these provisions as part of its legislation amendments under the Housing and Community Development Act of 1993.

Mr. Chairman, this collective effort marks a renewed spirit of cooperation by HUD, State and local governments, practitioners, and the housing nonprofit organizations. They are encouraged by this collaborative venture and are enthusiastic about sustaining these efforts to make HOME as well as other HUD Housing and Community Development Programs more responsive and flexible.

The aforementioned groups are supportive of the following HOME legislative provisions presented in the Housing and Community Development Act of 1993:

Uniform MATCH provision; The provision for Income Targeting by units rather than the targeting by funds spent; The provision to increase the flexibility of use for funds recaptured for home ownership; The provision to allow environmental reviews of the State to be passed on to the local agencies; The provision that the State housing finance agencies be allowed to administrate HOME; and The provision retaining the existing dollar threshold for local participation in the HOME program.

Also, the provision for including HOME housing services under the Community Development Block Grant, and using Community Development Block Grant program funds at HOME for the Community Development Block Grant funds for the program administration of HOME. The provision refining requirements for low-income home buyers, that they do not necessarily have to be the first-time home buyer; and The provision for consolidating audits

and allowing primarily the local audit of the program to be the one which HUD uses.

Mr. Chairman, the new administration's strong support for these refinements to the HOME program and the HUD Secretary's commitment to making HOME more responsive and flexible for States and local governments clearly signals a new beginning for the HOME program.

In fact, HUD has recently implemented a HOME Action Plan. The Action Plan is an attempt on the part of the administration to enhance the effectiveness and the visibility of the HOME program, and to facilitate the commitment and the expenditure of funds to internal administrative actions, and we strongly support the administration's endeavor.

We are also supportive of the section 108 Economic Revitalization Initiative. For my own locality, let me say in terms of section 8, we have now done four section 108 loans in Fairfax County and find it an excellent program, and are well pleased with the results.

Mr. Chairman, and Members of the subcommittee, as you know the Office of Community Planning and Development is doing an expansion of the section 108 Loan Program that is intended to increase new development activities.

The section 108 Loan Program is used to leverage loans or grants that are given to for-profit or not-for-profit entities who undertake activities related to housing and other physical economic development activities under the Community Development Block Grant Program.

Under the administration's funding initiative, communities could use the section 108 Loan Program in combination with funds recaptured from UDAG to finance a portion of the cost of qualifying economic and neighborhood revitalization projects. While we support the thrust of the administration's proposal, we are concerned that the definition of "economic revitalization" is too narrow.

The bill would limit economic revitalization grants to those economic development activities eligible under the Community Development Block Grant Program. We recommend that the definition be broadened to also include housing activities which would contribute to economic revitalization. In this context, economic revitalization would be viewed as comprehensive in nature, including some combination of commercial activity, industrial activity, housing, and mixed-use facilities.

Here I should mention that we use our section 108 Loan proceeds to build into our office building, a single-room occupancy hotel which is limited to single-persons, working single persons.

This was a way to build living accommodations into a mixed-use economic activity. We also wish to advise the committee that we are undertaking a comprehensive review of the section 108 Loan Program to determine if greater flexibility and expansion of the eligible activities may be appropriate to maximize the use of section 108. We will share the results of that with the committee upon its completion.

I should also mention that we have used in Fairfax County section 108 in rehabilitation and the acquisition of some HUD projects under the 236 program. One such project was the drug capital of northern Virginia, in Reston. Without those funds, and without the



ability to have 108 funds, we would not have been able to acquire the project and to totally rehabilitate it and change its total character and makeup.

Mr. Chairman, local governments are ready to work with you and Members of the subcommittee to ensure and facilitate effective and efficient administration of HOME at the local level.

We thank you again for the opportunity to present the views of the national organization representing local governments' elected and appointed officials, and the whole Community Development Block Grant portion of the Housing and Community Development Act of 1993. We look forward to your continued support and leadership in addressing critical affordable housing in our community.

Thank you.

The CHAIRMAN. Thank you very much.

Mr. Coyle.

**STATEMENT OF STEPHEN COYLE, CHIEF EXECUTIVE OFFICER, AFL-CIO HOUSING INVESTMENT TRUST, WASHINGTON, DC**

Mr. COYLE. Mr. Chairman and Members of the committee, my name is Stephen Coyle. I am the chief executive officer of the AFL-CIO Housing Investment Trust.

We are an investment company that has been doing business through predecessor entities and this entity for 30 years, and have financed some 34,000 homes across the country over this period of time. Annually we finance over 3,000 homes.

I want to thank the committee for this opportunity to appear before you and to testify in support of the HUD Demonstration Act of 1993, and to urge especially that you support the section 8 Community Investment Demonstration Program provision.

In June 1992, the GAO issued a report entitled *Pension Plans: Investments in Affordable Housing Possible with Government Assistance*. In that report the GAO suggested that expanding the role of pension funds in financing affordable housing would require three key elements.

First, intermediaries that could package the financing and work with local sponsors.

Second, the ability to convert the debt instruments from the projects into assets that are liquid and marketable securities.

And third, the presence of Federal subsidies to allow the secondary market organizations that exist—Fannie Mae, Freddie Mac, or top-tier State housing finance agencies, to provide the credit enhancement of securitization.

Under the Demonstration Program that is before your committee, the issues raised by the GAO are addressed. The funds, like the HIT or other investment companies or pension funds, can serve as the intermediaries that do the packaging. Fannie Mae, Freddie Mac, and top-tier State housing finance agencies can provide the secondary market mechanism that converts project debt into securities. And the section 8 assistance, which is project-based rather than tenant-based, gives predictability to the underlying cash flow which, in turn, is needed as a precondition to underwrite the projects and provide the guarantees.



Therefore, we put forward a model for financing affordable housing, and for using pension funds in that process.

The GAO called for this. It issued the challenge. What this demonstration does is simply this: It provides a replicable framework for pension fund financing of affordable housing.

No such framework exists today. The sweeping changes in the Tax Code in 1986, the termination of the section 8 new construction, deep-subsidy program, and the fundamental change in the financial marketplace that has occurred in the last 5 years, taken together, have left us without a rational, predictable, and systematic framework for financing affordable housing. That is the central problem that we face at the grassroots level.

What this demonstration does is provide a framework for addressing housing production problems in a systematic way, and in a way that allows new capital to be brought to the problem.

As the GAO Report noted, Federal assistance is critical to any effort to encourage pension fund investment in affordable housing. The section 8 Community Investment Demonstration Program is an effort to explore ways to provide the assistance called for by GAO in the ways that are most cost effective to the Federal Government.

For example, we are proposing that securitization come from the non-FHA sources. So that would remove that exposure and liability to the Federal Government.

The section 8 assistance is not presumed to be renewable. It is flexible between 5 and 15 years. That reduces the cost to the Government, and it attracts other sources like tax credit equity so that more units are produced at costs that are marginal to the Federal Government. It is not a deep-subsidy, continuing program, as some people have suggested.

Mr. Chairman we have severe budget limitations. You must deal with them every day. The Federal Government is reducing its assistance to housing. Local governments are also similarly restricted.

We have to develop new ways to bring in new sources of capital to meet the production needs of the affordable housing marketplace. Pension funds, properly secured, can be one of those sources.

A word about the ERISA standards. While the demonstration will encourage the development of affordable housing, it is important to note that pension funds will not be permitted to make investments that do not meet the standards currently in law under ERISA.

There is no change in current standards proposed by this legislation. The demonstration will operate within all of the existing well-established fiduciary guidelines for pension fund investment.

These guidelines are critical to protecting the interests of the retirement community, the 50 million people whose hard-earned savings make up the \$4 trillion that are in America's pension funds today. No standards currently in effect will be changed in any way by this demonstration.

Moreover, although any pension fund or entity established to invest pension funds would be eligible to participate in this demonstration, no pension fund is required to participate. In this demonstration participation is entirely voluntary.

Five years would be the term of the Demonstration Program. It would provide \$100 million in section 8 assistance, and the Secretary would have the flexibility to provide 5- to 15-year assistance based on the conditions in the project and the marketplace.

For investors of pension funds, the project-based section 8 assistance would make the projects more financially feasible and secure; would make much of the housing to be constructed affordable to families of low- and moderate-income; and would provide contracts for assistance that will make it possible for investors to underwrite the loans and make them eligible for securitization. Because of the very predictability of that cash flow, the Fannie Mae, Freddie Mac, and top-tier agencies could participate. They in turn provide the security the pension funds require.

Pension funds would not be investing in projects and holding mortgages, but instead they would be buying securities as they do today. About 11 or 12 percent of pension fund assets are in these kinds of mortgage-related securities today.

However, unless pension funds are in the first position on the origination side of new construction activity, they are simply recycling loans that already exist in the marketplace. In other words, pension funds today provide liquidity to housing markets, but they do not provide that first construction opportunity. That is what this demonstration does that is not being done today.

To summarize, liquidity and marketability of the security are the keys for the pension investor. By having the secure underlying cash flow that allows the financial intermediaries to play a role in this demonstration, the pension fund investors get what they need and the Government gets what it needs: new production.

There is another perspective I would like to add.

The demonstration requires that 30 percent of the section 8 assistance be targeted to assist in the disposition of HUD-held or FHA-troubled multifamily projects.

No. 1, we would suggest that if 50 percent of this demonstration were targeted to a troubled HUD inventory, which is over 30,000 units today and increasing, it would have a very significant and meaningful impact on that problem.

No. 2, the flexibility in the demonstration would allow the Secretary to deal with both categories of projects, previously subsidized and previously unsubsidized.

In short, Mr. Chairman, we are at a crossroads. This Demonstration Program allows new players to become involved in the production of affordable housing.

We would like to work with this committee, both sides of the aisle, and with anyone who is interested in providing decent, safe, and affordable housing. We would welcome the opportunity to work with local sponsors who want to take on the problem of the distressed projects which are located in the communities where they live.

It is a sad and unfortunate situation that the dream of providing decent, affordable housing that has inspired reformers for five decades, has often ended up in providing the worse housing conditions in the country for the people who live in those projects.

It is up to all of us to find new ways to solve those problems. This demonstration can go a long way toward providing a financial framework to just that.

Thank you.

The CHAIRMAN. Thank you very much.

Ms. Russ.

**STATEMENT OF MARYANN RUSS, EXECUTIVE DIRECTOR,  
COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES, WASH-  
INGTON, DC**

Ms. RUSS. Chairman Riegle, I appreciate the opportunity to testify before you today.

First of all I would like to say how very pleased we are that the administration has come forward with this package. We are delighted. We think it has both substantive and symbolic importance.

We particularly think that HUD has addressed some of the most important issues in public housing in this: crime, drug and alcohol abuse, security, economic incentives needed for public housing residents who go to work, and severely distressed public housing.

In general we are very pleased, although we, like everyone else, only received a copy and have not had a chance to review them as thoroughly as we would like.

On the issues of severely distressed public housing, our comments are most technical. I will give you the headline. The written comments are more fulsome.

We support the proposal to delete the statutory requirement that HUD draw up a list of the names of all the developments they consider to be severely distressed.

We support increasing the dollar cap on planning grants to \$500,000.

We are pleased with the additional definition of "community service" and "supportive services," but we would urge a revision of the definitions to more closely parallel the definitions from the Urban Revitalization Demonstration. We think that those are broader and more helpful.

We support the increase in the cap on supportive services of no more than 20 percent of the implementation grant.

We liked in the Urban Revitalization Demonstration Program the provision that said one-third of the replacement units would be tenant-based assistance. We would like to see that come over to your version, as well.

We think it reduces the cost, and it also adds flexibility because, remember, under this model the residents are key players in making the decision. If that is a decision that they want to put forward, I think that the PHA's in the localities should be able to do it.

We have a number of concerns with the definitions section, but they are extremely technical and I am not going to talk about them.

One thing that nobody on the HUD panel talked about that we think is extremely significant, and we have a problem with, is the use of modernization funds for replacement housing.

HUD is proposing that PHA's use modernization funds for additional housing units to replace those demolished or disposed of, rather than modernized.



We have heard these proposals made in the past, and they have a certain amount of plausibility, but we think they are basically misconceived.

Of course it is true that all public housing should not be modernized. Some of it is not economically or otherwise viable, and it should be demolished or disposed of. But we do not think that using modernization money to do that is the answer.

Currently they are two separate programs, and that is the way to handle it, because the funding levels for the MOD program are far below what is needed to keep up with new needs as they occur and eliminate the current backlog.

Replacement housing costs about \$90,000 per unit, on a nationwide average, versus \$15,000 per unit for mod. So in one sense, for every replacement unit you build using modernization funds, you are asking five families currently in residence to forego having their units modernized. We do not think that that is a good trade-off. Just on a unit count basis, it is not a good tradeoff.

We think what is needed instead is an expansion of the Public Housing Development Program. I have been participating with HUD in a series of grueling discussions about how to redesign and reinvent the Public Housing Development Program, and they have a lot of really good proposals.

If they carry through on these, development is going to be a workable program. You will see the money spent in a timely manner, and you will see a lot more units constructed. We think this is the way to go.

HUD is proposing to allow PHA's to demolish without replacement if there is no need for additional assistance. We think that is a good idea, but we think the onus on showing there is no need for assistance should be a local rather than a Secretarial decision.

One thing they did not talk about that we think is very important is we would like to see replacement housing exempted from impaction requirements.

We think it is silly that housing authorities have to go through an impaction test when they are tearing down units, when in fact the net result is going to be fewer units in the locality. It does not make sense to apply the impaction test, and that is being applied now.

Under COMPAC, the Anti-Crime Initiative, we are very pleased with the expansion of the program. We are very pleased with the funding level that HUD is asking for.

We do recommend that the list of eligible activities be expanded further to include alcohol treatment and rehab, recreational activities for youth, security dogs, vehicles, and other items that we have in a massive survey that we can provide to you.

We applaud this shift in the program to give more importance to rehabilitative purposes and community policing, and we think that the overall thing we want to see in COMPAC is that there be a steady, reliable flow of money from one year to the next.

Housing authorities are having a tough time planning. I wish Senator Sarbanes were here for this, because he recently has been experiencing a lot of pain in this Department when his authority lost \$2 million for anticrime activities this recent year.



The CHAIRMAN. Let me just tell you that we have got a meeting that is starting with Hillary Clinton on the Health Care issue that began 10 minutes ago, and I think that is where he is, and that is where I must go as soon as we finish. So I indicate to you that he wanted to be here very particularly to hear you, but that is the problem.

Ms. RUSS. Well, we have some very specific proposals on ways we think the money should be distributed that will, first of all, ensure that the people who have the greatest need get it. I think the language in the bill is just too squishy on this point. I mean, HUD never intended the results that occurred this year, but they occurred.

We have got to have a better way to ensure that people with the greatest need get the money, and that it go on a basis that is rational and does not replace existing police functions. We know that that is one of Senator Sarbanes' main concerns.

Our final point on this is the issue of improving economic opportunities for public housing residents. We favor ceiling rents. We have a slightly different angle on how the wording should be in the bill. We also favor the 18-month disregard of earned income, but it is not enough.

We also need the four additional deductions from income. There have never been appropriations to support them—but those are really good deductions. Without them, the 18-month disregard and the ceiling rent will not be enough. People who go to work in typical first-time jobs lose their Medicaid, end up paying medical expenses, do not get to deduct those medical expenses for their rent, and have their rent calculated on gross income less a few deductions.

It is a very uneven playing field, and what will happen is that the 18-month disregard will say to people: You have 18 months in which to get out.

The CHAIRMAN. Yes.

Ms. RUSS. So I think it will not have the impact that the administration and we all hope that it would.

Thank you.

The CHAIRMAN. Thank you very much.

I know you have other points that you wanted to stress, and we are going to make your full statement a part of the record. I may have some questions for you for the record to draw out some of these points.

Ms. RUSS. Thank you. We would be happy to respond to them.

The CHAIRMAN. You just made a very important one right at the end.

Ms. Melkonian, excuse the coming at the end of a line of march here, but we appreciate your being here, and we would like to hear from you now.

**STATEMENT OF MARILYN MELKONIAN, PRESIDENT, TELESIS, FORMER DEPUTY ASSISTANT SECRETARY, HUD, WASHINGTON, DC**

Ms. MELKONIAN. Thank you very much, Mr. Chairman.

I just have a few remarks. They do not cover all the aspects of the Secretary's proposals on multifamily disposition, but I wanted to give a general sense of their thrust.

What the Secretary has proposed I believe is the most comprehensive restatement of HUD's multifamily disposition policy in 14 years. It is part of a series of innovative proposals to improve the operation of HUD programs across the board.

This Secretary and this Department have seized the moment for positive change. They deserve support and cooperation in shaping and enacting these creative proposals.

This is a reinvigorated Department of Housing and Urban Development, but these are old problems, especially in the area of HUD-owned properties and their disposition.

In the last Democratic administration, as you pointed out, my job was Deputy Assistant Secretary of HUD with responsibility for multifamily housing, including disposition of multifamily properties. At that time, issues similar to the ones we face today confronted the Department.

In 1978, a series of amendments to the National Housing Act established a multifamily disposition and preservation policy which was adopted by the Congress.

These amendments established the goals to be furthered by the Secretary which included preservation of housing and neighborhoods, maintenance of stock in good condition, and minimizing the displacement of tenants and demolition of projects.

The Congress recognized that to achieve these goals the Secretary would have to balance competing interests and limited resources. Therefore, it left the Secretary the discretion to make choices that would be in the interests of maintaining the affordable housing supply, protecting tenants, and protecting the interests of the Federal Government.

The Congress entrusted the implementation of this policy to the Secretary and permitted the Department to set out detailed programs in its regulations and program procedures.

In subsequent years, as we well know, the Congress withdrew a great deal of the trust it had in the Department and relied more and more on detailed legislation which required the Department to carry out specific disposition programs.

As the Secretary has described, this led to an unworkable disposition policy. The requirements that the Congress has placed on the disposition program cannot be carried out with the resources at hand. A new policy is needed.

The changes the Secretary has requested to the disposition program are progressive steps to deal with the HUD-owned inventory within the resources available.

They would give the Department more flexibility in its disposition program and would eliminate the obligation to a class of projects currently entitled to section 8 subsidies upon disposition.

Relieving the Department of this obligation merely recognizes the reality of limited resources. However, I would suggest that in regard to the treatment of formerly unsubsidized and formerly subsidized properties, the Department requires even greater flexibility.

Currently approximately one-third of the HUD-owned and foreclosure multifamily properties are formerly subsidized prop-

erties, and approximately two-thirds are formerly unsubsidized. The distinction between "formerly subsidized" and "unsubsidized" properties is often artificial.

These properties often make similar contributions to the housing supply, to the affordable housing supply, and have similar economic and tenant profiles. In addition, the location of formerly unsubsidized projects often furthers important housing goals such as racial and economic integration.

The Department should have the flexibility to look at the circumstances of formerly unsubsidized projects and determine whether or not it makes sense to use section 8 resources in connection with their disposition.

Similarly, the Department should also have the discretion to look at formerly subsidized projects and reach the conclusion that not all units and projects which were previously assisted with section 8 need to be provided with new section 8 subsidies.

These two policies, on the one hand mandating that all previously subsidized units and formerly subsidized projects receive new subsidies, and on the other to require—to prohibit that project-based subsidies be added to unsubsidized projects, are both inefficient. They are inefficient because they ignore the social and the economic characteristics of individual projects which determine the need for a particular subsidy.

In short, the Congress should give this Department goals, and guidelines, and new resources, but it should leave to the Department the ways and means to achieve these goals with the tools and resources at its disposal.

The Department has a number of techniques in its disposition program, including repairs, writedown of costs, as well as project and tenant-based subsidies which can be mixed and matched to achieve preservation objectives.

A writedown of the disposition costs which the Department has the authority to carry out can often reach the goal of serving the current tenant population without the need for section 8 subsidies.

Where this approach is less costly to the Government, the Secretary should be permitted to make that judgment and use section 8 subsidies only where they are needed.

I recommend to this committee that it pursue in its discussions with the Department the articulation of clear and firm goals, define the new resources, and leave it to the Department to implement a program.

A year from now, performance can be measured, lessons learned, and new guidelines provided if necessary. The stock of federally assisted housing is an important resource. To paraphrase Will Rogers: "We ain't makin' any more of it."

We should find a way to use our resources, techniques and skills to best preserve that stock as part of the affordable housing supply. The Department's proposals are firm steps in that direction.

The CHAIRMAN. Thank you, very much.

Let me thank all four of you. I am going to adjourn the hearing now because I have got to go join this health care hearing.

We may have some questions for the record for you. We appreciate very much the contribution you have made, and I stress again our appreciation for doing this on short notice.

Thank you, very much.

The committee stands in recess.

[Whereupon, at 12:50 p.m., the subcommittee was recessed subject to the call of the chair.]

[Prepared statements, response to written questions, and additional material supplied for the record follow:]



## STATEMENT OF SENATOR ALFONSE M. D'AMATO

I would like to commend my colleague Senator Riegle for conducting this hearing on the legislative proposals submitted by the Department of Housing and Urban Development (HUD). I would also like to welcome Secretary Cisneros, Assistant Secretaries Joseph Shuldiner, Nicolas Retsinas and Andrew Cuomo as well as the other experts that have been invited to testify this morning. I look forward to hearing their ideas on how we can improve the programs that are administered by HUD and ensure the safety and soundness of the FHA multifamily housing program.

The FHA property disposition process at HUD has virtually shut down because HUD lacks the Section 8 funding needed to dispose of the properties. A recent study by Coopers and Lybrand indicates that HUD's multifamily housing inventory is expected to increase significantly over the next several years. The expected cost in 15-year Section 8 project-based assistance for property disposition could rise to as much as \$12 billion.

As more and more FHA insured developments fall into foreclosure, the cost and management burden to the Federal Government increases, adding to the potential for further distress in neighborhoods where the properties are located. We have to create the flexibility necessary to rectify this problem in order to maintain the actuarial soundness of the fund while at the same time balancing the need for providing affordable housing opportunities. It appears as if HUD's legislative proposal is moving in the right direction.

HUD recently proposed a reduction in Fair Market Rent levels under the Section 8 program. This provoked a firestorm of protest by PHAs over reduced administrative fees and concerns by tenants over their ability to choose adequate housing. In this legislation HUD proposes to freeze the PHA administrative fee. This will take care of one concern of the PHAs, however, it does not address the more important issue of drastically reduced Fair Market Rent levels. While families receiving Section 8 will lose their choice in housing, it will have a devastating effect on the ability of the PHAs to administer programs.

The Secretary has submitted proposals which provide incentives to facilitate the transition from welfare to work. Public housing now serves only the very poor. Creation of communities which do not encourage work, education, and upward mobility serves to only further dependency, crime and blight in our Nations communities. I commend Secretary Cisneros' efforts to address this serious problem.

I am encouraged that the Secretary has focused attention on the severe crime that continues to grip our Nations communities. Providing safety and security to the residents of public and assisted housing should be a paramount objective in any responsible housing plan. The Administration has built upon the success of the Public and Assisted Housing Drug Elimination Act of 1990 to create an expanded program, and I hope that we will be able to work together to formulate a responsible provision that will build upon the success of the Drug Elimination Grant Program to help breath new life into neighborhoods around the country.

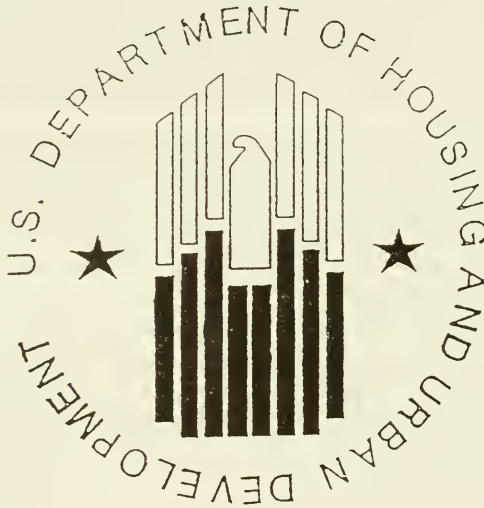
This committee has worked to pass significant housing legislation in the past three years. I hope that the Secretary will work to implement the National Affordable Housing Act of 1990 and the Housing and Community Development Act of 1992 in a prompt manner. "The Housing Act of 1993" was transmitted to Congress yesterday afternoon. I look forward to reviewing this legislation and working on a bipartisan basis with the Administration to address these proposals in a responsible manner.

**STATEMENT BEFORE THE SENATE COMMITTEE  
ON BANKING, HOUSING AND URBAN AFFAIRS**

on the`

**Housing and Community Development Act of 1993**

Washington, D.C..  
July 28, 1993



By

**SECRETARY HENRY G. CISNEROS**

Members of the Senate Banking Committee, thank you for the opportunity to appear before you today to discuss some critical legislative priorities for the Department of Housing and Urban Development.

I want to briefly discuss two pieces of legislation with you—the Housing and Community Development Act of 1993 and four amendments we propose to the Department's 1994 budget request.

During my confirmation hearing before your committee, I was asked whether there were any statutory impediments that prevented HUD from fulfilling its mission . . . that kept us from helping to meet the housing, community, and economic development needs of the American people. I felt that those questions at my confirmation were a signal that if legislation were necessary to remove such impediments, I could come back.

Well, I'm back.

I'm back because—in the first six months of my stewardship at HUD, in addition to the major management problems we have discovered—we have found a series of statutory impediments that restrict our ability to function efficiently and effectively.

I'm back because statutory impediments have made it all but impossible for us to sell our inventory of HUD-owned multifamily properties . . . an inventory that has gone through unprecedented, explosive growth in the past four years.

I'm back because statutory impediments prevent state and local governments, nonprofits, and others from making the most efficient and effective use of our programs.

I'm back because we need you as a partner; we need your support so HUD can become more effective in serving the people who most need our help.

#### HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1993

Let me first summarize for you our proposed Housing and Community Development Act of 1993, its key provisions and its purposes. After my statement, Assistant Secretaries Retsinas, Cuomo, and Shuldiner will give you a more detailed description of the bill's major provisions.

The Housing and Community Development Act of 1993 is designed to achieve three primary objectives:

**First**, the bill would provide the Department with the tools and authority to address its most pressing management problem—the explosive growth of FHA's multifamily inventory. This legislation would make a series of changes to existing law, relieving the most onerous statutory restrictions as well as making the current disposition process more flexible.

We strongly believe that these changes—by enabling the expeditious disposition of properties—will help stabilize neighborhoods, preserve affordability, and minimize cost to the Federal Government.

**Second**, the bill would provide flexibility to state and local agencies, community groups and tenants by removing statutory impediments from HUD's programs. Examples of such program improvements include:

- creating incentives to work in public housing by changing existing rent rules;
- promoting economic and neighborhood revitalization through improved access to the Section 108 Loan Guarantee program;
- merging the Department's two severely distressed public housing programs;
- simplifying key elements of the HOME program;
- encouraging community strategies to combat crime in neighborhoods through the Community Partnerships Against Crime (COMPAC) program; and
- freezing the base used to calculate administrative fees under the Section 8 program.

**Finally**, the bill would make a series of technical corrections to provisions in the Housing and Community Development Act of 1992 and other recent housing authorization laws.

#### AMENDMENTS TO THE FISCAL YEAR 1994 BUDGET REQUEST

Now, I would like to discuss four amendments we have proposed to our FY 94 budget request.

As you know, the FY 1994 budget was produced quickly and submitted last April. Since then, a range of organizations have come to the Department seeking partnerships.

We have been encouraged by the positive reception we have received, the willingness—eagerness—to work with us that has been expressed by such disparate groups as nonprofit organizations, the private sector, foundations, labor leaders, and many others. People want to partner with us, want to innovate and share responsibility

in helping individuals regain their independence . . . in helping communities restore their social and economic vitality.

We have an opportunity to leverage the power of the private sector, to harness resources as yet untapped—or not yet utilized to full effectiveness—to help fulfill the Department's mission.

Right now, we don't even have sufficient funds—nor adequate flexibility—to tap into these opportunities . . . to take advantage of the partnerships that can make a difference in the lives of those in our most distressed communities—those without a job, those without a home.

These are the reasons why we are proposing the following four amendments which were outlined to your colleagues on the House Banking Committee last month.

The first two provisions would amend the Annual Contributions for Assisted Housing:

- *The Pension Fund Partnership* is our proposal for a set-aside of \$100 million within the annual contributions account for Section 8 project-based certificates in support of partnerships with private pension funds. Financing from pension funds would be in conjunction with Fannie Mae, Freddie Mac, state and local credit support or private securitization. The \$100 million would deliver up to 3,000 project-based certificates that would be used by low-income renters in assisted housing projects constructed or rehabilitated by the partnerships. This could facilitate the repair and sale of some of the FHA multifamily inventory and would provide a degree of financial stability to the new projects.

- We also are requesting 3,000 additional units earmarked for the *Moving to Opportunity* program under Section 8, which would be accomplished by a shift in units from regular incremental Rental Assistance. What we're talking about here is deconcentration of the poor. These increased funds would help families move from public housing or project-based housing located in areas with high concentrations of poverty. The families would receive counseling from nonprofit organizations in finding housing in low-poverty areas. Moving to Opportunity helps families move out of obsolete and dilapidated housing into areas where their children can grow up without the depressing and destructive effects of blight, poverty, and crime around them.

The third provision is for \$200 million for an *Innovative Homeless Initiatives Demonstration*.

- This initiative would give the Department the flexibility to target additional resources to, and work cooperatively with, cities experiencing major homelessness. This flexibility is missing under the current McKinney Act formula and competitive, categorical programs. The assistance will help large cities bridge the gap between the "Continuum of care" approach and a fragmented local approach. Because homelessness poses different problems in different venues, no one solution would work for all, so small cities and rural areas will be included as demonstration sites.

The fourth provision is a request for a \$25 million set-aside in the HOME program account for *Assistance to Local Community Development Corporations*.

- These funds would leverage resources in the private sector to build the capacity of community-based development corporations. The \$25 million would be provided as a grant to the National Community Development Initiative (NCDI), a consortium of private foundations and a major insurance company, organized to accelerate the growth of community development corporations across the country. Each dollar of the \$25 million in federal funds would be matched by \$3 in non-federal funds. It is estimated that each grant dollar, along with the required matching funds, would leverage about \$5 to \$8 in additional community investment. The \$25 million for NCDI, then, would leverage from \$500 million to \$800 million in community revitalization funds.

Members of the committee, thank you for giving me this opportunity to discuss two important pieces of legislation. President Clinton has asked us to respond to the crisis of our long-neglected and impoverished communities with realistic solutions. I am encouraged by the willingness shown by the private sector, by nonprofits, foundations, state and local governments to work with us in finding these solutions. And I am gratified by the cooperation and support we have received in our efforts by the Congress. We need your help, and we look to you as our partners in helping the American people build communities of opportunity.

At this time, Assistant Secretaries Retsinas, Cuomo, and Shuldiner can give you further details on our proposed Housing and Community Development Act of 1993.



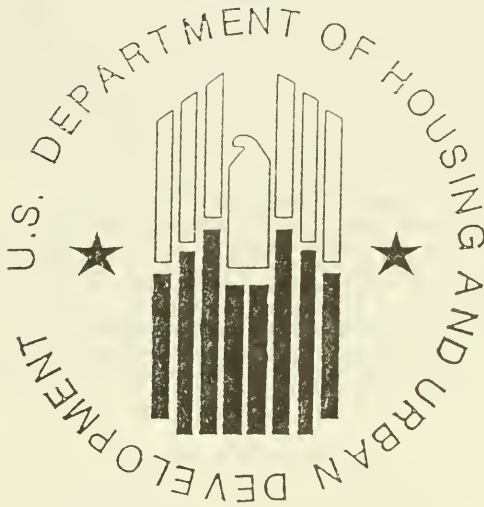
**STATEMENT BEFORE THE SENATE COMMITTEE  
ON BANKING, HOUSING AND URBAN AFFAIRS**

on the

**Housing and Community Development Act of 1993**

Washington, D.C.

July 28, 1993



By

**NICOLAS P. RETSINAS**

**ASSISTANT SECRETARY FOR HOUSING/  
FEDERAL HOUSING COMMISSIONER**

Mr. Chairman and Members of the committee, thank you for the opportunity to present our legislative proposals for multifamily housing property disposition. Last month we appeared before you to discuss this growing and costly problem. As we said then, we appreciate the leadership taken by your committee in calling attention to this issue at an early stage, holding hearings, and asking for solutions. Last month we promised to come up with new remedies, and our proposed legislative changes are the ones we have carefully identified as an effective and balanced approach to preserving affordable housing within the constraints of budget discipline.

The problem is one that I previously characterized as "paralysis by good intentions." Congress, acting on its commitment to preserve affordable multifamily housing, has imposed a series of restrictions that have inhibited our ability to sell foreclosed properties without substantial federal subsidies that thus far have not been available. For FY 93, we have only enough funding to subsidize the sale of 1100 units, while we have 33,000 units that require subsidy in order to be sold under the current law. Last year it cost us over 250 million dollars to hold and manage these properties. The longer these restrictions remain in effect, the more our inventory and our holding costs as a federal landlord will grow. Our legislative proposals are designed to remove several key obstacles to the sale of multifamily properties and get them back into private ownership and management where they belong.

The most important principle guiding our approach is BALANCE. The proposed legislation strongly reaffirms our intention to protect the rights of tenants and to preserve affordable housing. At the same time, it is designed to move properties out of our inventory more expeditiously and cost-effectively while responding to the current realities of the federal budget. Under the current law it would cost \$6.5 billion over five years to fully subsidize and dispose of the HUD multifamily property. Our proposals would reduce that total cost by more than \$2 billion.

The key provisions of our package would modify the conditions for sale of subsidized and unsubsidized properties, introducing greater flexibility and savings into the disposition process. For subsidized and formerly subsidized projects, we would provide 15-year, project-based Section 8 contracts only to units currently under contract. The major change is in unsubsidized projects, where we would provide 5-year project-based Section 8 contracts for those units currently assisted. We also have the option of providing 5-year tenant-based assistance to eligible tenants. This proposal is designed to preserve, but not expand, housing assistance for tenants and units that do not now receive subsidies, and it would substantially reduce the number of Section 8 contracts needed to sell unsubsidized properties. For subsidized projects we would use rent restrictions and tenant-based assistance to achieve further flexibility and cost savings.

We also seek to revise the requirement that requires all units remain as subsidized rental housing. We propose an experiment that would allow up to ten percent of the units in the inventory to be sold for non-rental use, including shelters for the homeless, low-income homeownership, and office space for service providers. Also, out of our commitment to reduce the spatial separation of low-income people and minorities in urban areas and to encourage income mix, we propose that up to five percent of the HUD property be disposed of for any purpose, and not necessarily for low-income use. This would be done in consultation with local governments, and low-income tenants can be assisted through vouchers and fair housing to have greater choice in their residential environment.

In addition, we will increase cooperation with state and local governments by providing an opportunity to express an interest in acquiring properties at an early stage in the disposition process and to work with HUD in developing disposition plans. This would enable us to dispose of properties more rapidly to state and local governments, or to other purchasers if state and local governments choose not to exercise their right of first refusal.

Another important provision of our legislation would strongly encourage partnerships with other key agencies to utilize added resources and talent in getting the job done. We would establish demonstration programs that enable the Resolution Trust Corporation and state and local housing finance agencies to market and dispose of our property inventory. We would relax certain regulatory restrictions in order to encourage their efforts. We also propose to encourage state and local governments to acquire and rehabilitate subsidized properties by providing grants for property rehabilitation.

We also would impose civil money penalties on general partners and management agents that fail to properly manage and physically maintain their projects. This is another way to prevent our inventory problems from growing.

There are several more provisions in the legislative proposals for partnerships, tenant-based assistance, and sale of unsubsidized mortgages. Let me emphasize again that this program will cost money to implement, but much less money than

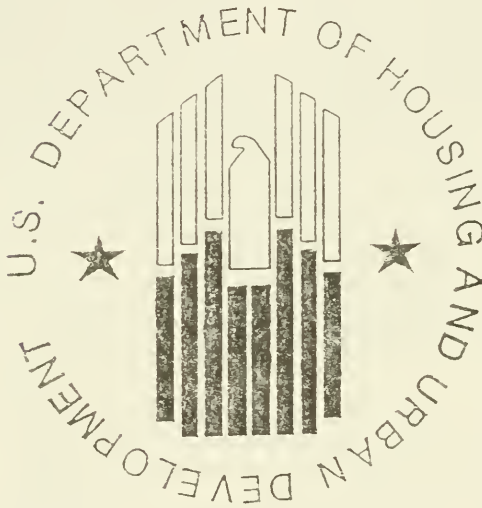
is required under the current law. Further, it will enable us to substantially reduce the holding costs we now bear as a Federal Government landlord. In the long run, finding ways to move these properties back into the private sector, working with state and local governments, other federal agencies, community-based nonprofits, and tenant groups as partners will be the best solution and one that we believe the Members of this committee and of Congress strongly supports. Thank you.

**STATEMENT BEFORE THE SENATE COMMITTEE  
ON BANKING, HOUSING AND URBAN AFFAIRS**

on the

**Housing and Community Development Act of 1993**

Washington, D.C.  
July 28, 1993



By

**JOSEPH SHULDINER**

**ASSISTANT SECRETARY FOR  
PUBLIC AND INDIAN HOUSING**



Thank you and good morning, Chairman Riegle and Members of the committee. I thank you for the opportunity to be here this morning with Secretary Cisneros to talk about HUD's future. I want to take this time to discuss Title II of the Housing and Community Development Act of 1993, as it relates to improving the quality of life and the effectiveness of programs that impact public and Indian Housing residents.

We call this section Enhancing Program Flexibility. The Secretary has made it clear from day one that one of HUD's overriding goals is to make itself more "user friendly" for the many residents and community-based, nonprofit and governmental organizations who use our services or work with us as partners.

Over the past several decades, federal policies have transformed public housing into "warehouses for the very poor". Various requirements and practices have led to the concentration of very low-income families in dense, physical settings as well as discouraged residents from working.

The creation of stable, healthy communities—the goal of the public housing program—has, in effect, been impeded by the Federal Government. The rules governing public housing rents, in particular, have played a role in the de-stabilizing of these communities, and that is why we propose to change those rules.

To address these issues, the legislation seeks changes in the 30 percent rules, which requires public housing residents to pay 30 percent of their adjusted income for rent.

The way the rules are now written, the 30 percent rule provides a disincentive to work. It penalizes tenants who move from unemployment to employment, causing some to decide to separate from their families only so that their incomes will not be calculated as to raise the rent.

Also, the 30 percent rule forces some families, primarily those working families who serve as role models, to move out of public housing because the 30 percent they have to pay for rent under this rule is more than the units are worth.

Our bill would make two very important changes in these rent rules. We would exclude for 18 months the earned income of public housing residents who obtain employment after having been out of work for at least a year. Also, the bill would establish rent ceilings—regardless of the 30 percent guideline—based on a reasonable rental value of the unit which would be a percentage of the fair market rent in the areas where public housing is located.

Secondly, we want to address distressed public housing. Since the 1930s, public housing has been a strong pillar of our Nation's policy toward the provision of housing for society's neediest citizens. More than 3 million people are residents of public housing—and their average annual income is only about \$6,000.

While most public housing is well maintained, undistinguished from any other rental housing and is well integrated into the communities where it is located, we have among the 10,000 or so developments some that are in desperate need of major changes. We have some highly visible housing developments that are intolerable and are the home of seemingly intractable living conditions.

For many years, discussion about distressed public housing has been reduced to whispers. Some have felt that if we discussed distressed housing in national policy circles, support for public housing would dry up if these worst cases of the inventory were highlighted.

To revitalize the Nation's distressed public housing, the bill would merge the Department's two separate programs—HOPE VI and Section 24—that are aimed at revitalizing distressed public housing developments. Key elements of the merger proposal include:

- Deleting the requirement that the Secretary designate "severely distressed" projects;
- Increasing the planning grant dollar cap from \$200,000 to \$500,000. The current cap is not enough for some of the larger housing projects.
- Requiring grant applicants to include community service activities in their proposals, such as job training, opportunities for completing high school requirements and other programs for disadvantaged youth.
- Deleting the requirement for "national geographic diversity" among applicants, to put the money where it is needed most. Requiring geographic diversity means that some really distressed projects would not be funded because of the need to satisfy regional goals.
- Giving public and Indian housing authorities more flexibility in planning for the future of their stock by making changes to demolition and replacement requirements in Section 18.

A third component to the legislation that would improve the environment for America's public housing residents is a change in the focus of the Community Partnership Against Crime (COMPAC) program. This program was developed in 1988

under the Public Housing Drug Elimination program to combat drug trafficking in public and Indian housing developments. To date, the program has been successful in leveraging increased law enforcement involvement through contracts negotiated by the housing authorities.

Under the legislation, COMPAC would be expanded to cover all types of criminal activity, not just drug-related criminal activity. We would also broaden the program to include among eligible activities such things as community policing programs, youth sports initiatives, anti-gang activities and resident services.

We would provide greater certainty of funding to those public housing authorities that have serious crime problems and can demonstrate success.

Our revised COMPAC initiative would also place a greater emphasis on promoting community involvement and comprehensive, long-term strategies. We want to build, through this reworked program, partnerships between tenants, public housing authorities and neighborhood organizations.

COMPAC is authorized at \$265 million for fiscal 1994, an increase of \$90 million over fiscal 1993 funding. For fiscal 1995, it is authorized at \$325 million.

And finally, Chairman Riegle, the Housing and Community Development Act of 1993 proposes to freeze the base on which the administrative fees are calculated for the Section 8 rental assistance program.

It has become apparent that linking fees directly to the two-bedroom FMR units works less well in a time when dramatically rising and falling FMRs bear little relation to actual changes in the cost for administering the programs. This maintains the status quo until the necessary changes can be made.

The Office of Public and Indian Housing—as part of HUD's overall agenda—is committed to making public housing residents more comfortable, and public housing communities more stable and livable. This legislation is a very solid first step that takes us in that direction.

Mr. Chairman, I thank you for the time, and we look forward to working with the committee to improve the living standards for America's public housing residents.

**STATEMENT BEFORE THE SENATE COMMITTEE  
ON BANKING, HOUSING AND URBAN AFFAIRS**

on the

**Housing and Community Development Act of 1993**

Washington, D.C.

July 28, 1993



By

**ANDREW M. CUOMO**

**ASSISTANT SECRETARY FOR COMMUNITY  
PLANNING AND DEVELOPMENT**

Mr. Chairman, it is a pleasure to be here to highlight for the committee the proposed changes relating to Community Planning and Development programs in the Housing and Community Development Act of 1993. The proposed changes are a result of continuing negotiations with public interest groups and nonprofit organizations and have been modified to reflect their views.

The changes have two major thrusts: first, to make more effective use of existing programs to provide communities with new tools for economic revitalization; and second, to make certain modest changes in the HOME program to make it simpler, more flexible, and responsive to clients needs.

#### ECONOMIC REVITALIZATION INITIATIVE

The proposed new economic revitalization program would authorize the use of deobligated UDAG funds to make grants to communities to finance a portion of the costs of guaranteed economic revitalization projects. Grants could be used to improve the financial viability of projects guaranteed and to overcome the reluctance of some communities to use the loan guarantee program because they fear that the projects will be unable to generate enough revenue to repay the loan. In case of default, cities must use a future stream of Community Development Block Grant funds for loan repayments. The amount of guaranteed loan commitments which could be made under the program is significant: up to \$2 billion. It will also leverage billions of dollars in private investment to create jobs and encourage neighborhood revitalization in both large and small communities.

The advantage of this program is that it would require *no new budget authority* for the first year of operation, since grants would be funded with recaptured funds already appropriated.

One of the changes proposed for the Section 108 program would make all public improvements and facilities now eligible under the CDBG program eligible activities under the Section 108 program in colonias. These are communities of oppressive poverty in this country located along our southern border with Mexico. In many cases, they have no running water and no sanitary sewer system. This change would permit us to use Section 108 as a vehicle to finance investment in public infrastructure projects in colonias.

Another improvement to the Section 108 program proposed in this legislation would give HUD authority to guarantee trust certificates backed by a pool of Section 108 loans. This should permit institutional buyers to buy in bulk, thereby reducing interest rates, and attracting large investors, such as pension funds.

#### HOME AMENDMENTS

The legislation would improve the operation of the HOME program, our premier affordable housing program. The changes would simplify the HOME program and make it more "user friendly".

First, we would allow States to designate such instrumentalities as State Housing Finance Agencies to run the program directly.

Second, we would target HOME program funds investment in rental housing by requiring that a certain percentage of *units or families* with incomes below 60% of median income be assisted, rather than requiring that a certain *percentage of funds* be used to provide assistance to families falling into that income category. This proposal would simplify the targeting requirement calculation.

Third, we want to remove the first-time homebuyer limitation on HOME units. The current definition of "first time homebuyer" includes almost all low-income homebuyers. The change would allow participating jurisdictions to efficiently assist any qualified low-income homebuyer.

Fourth, we would allow our grantees more flexibility in the use of HOME funds recaptured from the sale of assisted dwellings. We propose that such funds be made immediately available for all eligible HOME program purposes.

Fifth, we would permit a participating jurisdiction, once funded, to continue to receive additional HOME allocations even if there are changes in the total HOME appropriations. The proposed change would also avoid sudden increases in the number of new jurisdictions and eliminate the need for annual adjustments in the minimum threshold to preclude such increases.

Sixth, we would reduce the HOME match requirements for new construction from 30% to 25%, thereby making it consistent with the HOME match requirements for rental assistance, acquisition, and rehabilitation. This will reduce the administrative burdens on both HUD and participating jurisdictions.

Finally, other amendments we propose to the HOME program would conform some of the rules for HOME and CDBG, thereby facilitating the ability of jurisdictions to coordinate both effectively.



## TESTIMONY OF WALTER D. WEBDALE

DIRECTOR, DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Mr. Chairman and Members of the subcommittee, I am Walter D. Webdale, Director of the Department of Housing and Community Development for the County of Fairfax, Virginia. I am pleased to have this opportunity to testify before the subcommittee on behalf of the above national organizations representing local government elected and appointed officials, in support of the proposed changes to the HOME Investment Partnerships (HOME) program and the CDBG Section 108 program.

Mr. Chairman, the organizations I have mentioned above represent hundreds of communities that strongly supported the enactment of the Cranston-Gonzalez National Affordable Housing Act of 1990, which brought us the HOME program and continue to stand behind the HOME program as a key to addressing our Nation's growing housing crisis. With enactment of the HOME program, opportunities and federal resources which had been unavailable for nearly a decade are once again accessible to local communities.

Local governments continue to strongly support the HOME program and are committed to making the program address our local housing needs in a meaningful fashion. Without HOME, communities would be unable to leverage the kind of public and private resources for affordable housing that they are able to access and, in fact, many of the projects that are being assisted now would not be able to move forward at all.

Mr. Chairman, thanks to the work of this subcommittee and the enactment of the Housing and Community Development Act of 1992, several of the programmatic inconsistencies found in the original HOME legislation were eliminated. In addition, the recently published Interim Rule provided necessary conforming changes and additional regulatory refinements to the HOME program. Although these accomplishments, coupled with the cooperative partnership between the national organizations and HUD have served to expedite the use of HOME funds already, we believe that there are still statutory and regulatory modifications which will further enhance the flexibility and responsiveness of the program nationwide.

It is in the context of this collaborative and coordinated environment that the national organizations representing local and state officials, as well as nonprofit housing organizations came to an agreement on a consensus package of statutory improvements to the HOME program. We are pleased that the Administration has included these provisions as part of its legislative amendments under the Housing and Community Development Act of 1993.

Mr. Chairman, this collective effort marks a renewed spirit of cooperation by HUD, the state and local government practitioners and the housing non-profit organizations. We are encouraged by this collaborative venture and are enthusiastic about sustaining these efforts to make HOME as well as other HUD housing and community development programs more responsive and flexible. The following are the views of the aforementioned groups on the HOME legislative provisions as well as the Economic Revitalization Initiative presented in the Housing and Community Development Act of 1993.

## HOME INVESTMENT PARTNERSHIP (HOME) PROGRAM

*Uniform Match Requirement*

First, the national organizations strongly support the replacement of the current two-tiered match requirement, which requires all new construction projects to have a 30 percent match and all other projects to have a 25 percent match, with a flat requirement of no more than 25 percent for all HOME-funded projects. A flattening of the match requirement will remove the existing bias against new construction and reduce the administrative burden associated with documenting HOME match contributions for participating jurisdictions (PJs).

*Calculation Targeting by Units Assisted Rather Than Funds Spent*

Many PJs have found the tracking of HOME income targeting for rental projects by the "percentage of funds expended", to be a very difficult task. For this reason we endorse the use of "percentage of units assisted" as the basis for determining whether a jurisdiction is meeting its rental housing income targeting requirement, rather than current law which requires that HOME utilize the "percentage of funds expended". With this change, the income targeting requirements would now dictate that at least 90 percent of the units assisted (rather than funds invested) must be occupied by families whose incomes do not exceed 60 percent of the median family income for the area and the remaining units (rather than funds invested), up to 10 percent, must be occupied by families below 80 percent of median income.

This change in the existing requirements would restore rationality and simplicity to the income targeting provision, without altering the original intent of the provision. By using the "percentage of units assisted" rather than the "percentage of funds" to determine compliance with the income targeting provision, PJs will no longer have the difficult task of tracking the HOME rental money, but can more easily track the HOME units assisted.

#### *Recapture of Funds Used for Homeownership*

The National Affordable Housing Act of 1990 required that funds designated for homeownership, which are recaptured by the PJ, must be used for homeownership only. The elimination of this recapture use requirement, thereby allowing PJs to use homeownership funds for any HOME-eligible activity, would reinstate flexibility for PJs and promote a more locally responsive housing strategy. While the national organizations recognize the importance of promoting homeownership under the HOME program, the changing housing needs and conditions of PJs requires that the program be adaptive and flexible. This provision will enable communities to use the recapture funds for the activity(s) deemed most appropriate in accordance with local needs.

#### *Environmental Review by States*

Currently, states are required to retain full responsibility for environmental reviews under the HOME program. However, under the CDBG and the former Rental Rehabilitation program, states may delegate responsibility for environmental reviews to the local level. This reflects the fact that localities are often the best equipped to review projects in their jurisdictions. Therefore, we urge the subcommittee to modify the statute to allow states to delegate the performance of environmental reviews to localities (state recipients).

#### *State Administration of HOME*

The national organizations further support an expanded definition of "State" under HOME to include "or instrumentalities thereof", such as state housing finance agencies. Although the current definition of a unit of general local government includes "any agency or instrumentality thereof", the definition of states is less explicitly broad. HUD regional offices have precluded two state housing finance agencies (HFAs) from acting directly as the State under HOME, on the basis that their enabling legislation established them as separate instrumentalities from the State. This provision would allow full involvement of HFA's from every state.

#### *Threshold for Local Participation*

In 1992, the Housing and Community Development Act lowered the program thresholds to provide such that, in any year Congress appropriated less than \$1.5 billion to the HOME program, a jurisdiction must receive at least \$335,000 by formula and meet a minimum allocation threshold of \$500,000 in order to participate. We support the provision to return the threshold to the original \$500,000 mark, while holding harmless those participating jurisdictions which qualified for HOME funds under the current threshold provisions.

With the existing statute, the number of PJs fluctuate with each appropriation, some current PJs becoming ineligible and new PJs becoming eligible on an annual basis. This provision would hold the HOME activity numbers steady and enable the program to prosper without adversely affecting existing PJs or preventing the inclusion of new PJs.

#### *HOME Housing Services Under CDBG*

When the Housing and Community Development Act of 1992 made HOME delivery costs which are eligible under CDBG, eligible as CDBG housing services activities, it mistakenly subjected all housing services activities to the overall 20 percent administrative cap. We recommend the elimination of this current provision requiring that housing services activities (soft costs related to construction/reconstruction) be subject to the 20 percent administrative cap under CDBG. This condition did not exist prior to the Housing and Community Development Act of 1992 and under current regulations, only the general administrative costs associated with a project are subject to the cap and the housing services costs are directly chargeable to the assisted-project. This correction would retain the eligibility of HOME delivery costs while removing all housing services activities from the administrative cap.

#### *CDBG for Program Administration of HOME*

We support the proposed modification to HOME that would allow a PJ to use CDBG funds for HOME program administration and include the cost in the CDBG administrative services cap rather than the HOME administrative cap. This change

would provide PJs with increased flexibility and decrease the difficult administrative burden of tracking CDBG funds in the HOME administrative cap rather than retaining them under the CDBG administrative cap.

Often local practitioners use the same staff to administer both the HOME program and the CDBG program making it difficult to distinguish between HOME and CDBG administrative activities. This provision was derived from recommendations by the HUD HOME/CDBG Task Force and designed to ease the local accounting process.

#### *Change in Requirements on Low-Income Homebuyer*

Although the Housing and Community Development Act of 1992 and regulations (24 CFR 92) expanded the definition of "first-time homebuyer", practitioners still found the requirements cumbersome and ineffective. The CDBG program does not designate "first-time homebuyer", but only requires that the homebuyer qualify as low-income. By deleting the current statutory requirement that all low-income homebuyers be "first-time homebuyers", the low-income buyers, most of whom are purchasing their first home, still benefit from the provision without slowing down the eligibility process or making it difficult to partner with the CDBG program.

#### *Deletion of Outside HUD Audit of HOME*

Since all federal programs, in accordance with federal law, are required to conduct an outside audit, we believe that the current provision under Title II which requires HUD to contract with an outside auditor for an annual financial review of the HOME program, is both duplicative and unnecessary and we support its deletion from current law.

Mr. Chairman, the new Administration's strong support for these refinements to the HOME program and the HUD Secretary's commitment to making HOME more responsive and flexible for states and local governments, clearly signals a new beginning for the HOME program. In fact, HUD has recently implemented a HOME "Action Plan".

The Action Plan is an attempt on the part of the Administration to enhance the effectiveness and visibility of the HOME program and facilitate the commitment and expenditure of funds through internal administrative actions. The process has brought together practitioners, HUD field, regional and headquarters staff, as well as representatives of the public interest groups in a coordinated effort. Elements of the Plan will develop on an ongoing basis in an effort to be responsive to the shifting needs of the HOME system. We strongly support the Administration in this endeavor. The national organizations look forward to working with HUD in their attempts to identify additional refinements which could be made to the HOME program.

### SECTION 108 ECONOMIC REVITALIZATION INITIATIVE

Mr. Chairman, Members of the subcommittee as you know, the Office of Community Planning and Development (CPD) is pursuing an expansion of the Section 108 Loan Program that is intended to lead to an increase in new economic development activity. The Section 108 Loan Program is used to leverage loans or grants that are given to for profit and not for profit entities to undertake activities related to housing and other physical and economic development activities under the CDBG program. Under the Administration's funding initiative, communities could use the Section 108 loan program in combination with funds recaptured from Urban Development Action Grants (UDAG's) to finance a portion of the cost of qualifying economic and neighborhood revitalization projects. Specifically, Section 108 loans could be used to set up a loss reserve account to protect future CDBG allocations, or interest subsidy that could increase the project cash flow available to repay the Section 108 loan.

While we support the thrust of the Administration's proposal we are concerned that the definition of economic revitalization is too narrow. The bill would limit economic revitalization grants to those economic development activities eligible under the CDBG program. We recommend that the definition be broadened to also include housing activities which contribute to economic revitalization. In this context, economic revitalization would be viewed as comprehensive in nature, including some combination of commercial activity, industrial activity, housing and mixed-use facilities.

We also wish to advise the committee that we are undertaking a comprehensive review of the Section 108 Loan Program to determine if greater flexibility and expansion of eligible activities may be appropriate to maximize the use of Section 108. We will share the results of that review with the committee upon its completion.



Mr. Chairman, local governments are ready to work with you and Members of the subcommittee to ensure and facilitate effective and efficient administration of HOME at the local level. We thank you again for the opportunity to present the views of national organizations representing local government elected and appointed officials on the HOME and CDBG portions of the Housing and Community Development Act of 1993. We look forward to your continued support and leadership in addressing the critical affordable housing needs of our communities.

## TESTIMONY OF STEPHEN COYLE

### CHIEF EXECUTIVE OFFICER, AFL-CIO HOUSING INVESTMENT TRUST

Mr. Chairman and Members of the committee, my name is Stephen Coyle and I am the Chief Executive Officer of the AFL-CIO Housing Investment Trust. I want to thank you for the opportunity to appear before you to testify in support of the proposed HUD Demonstration Act of 1993, and to urge you especially to approve the Section 8 Community Investment Demonstration Program provision contained in the legislation.

Each of the programs that would be authorized by the HUD Demonstration Act would allow HUD to innovate and test, on an appropriate scale, new methods of addressing some of our Nation's most pressing housing problems. Whether the problem is homelessness, the growing inventory of distressed assisted housing units or the lack of adequate private sector investment capital in economically depressed areas of our cities, addressing these problems will certainly require persistence. But the innovation that can lead to breakthroughs, which in turn produce measurable progress, is lacking in current policy. These demonstration programs are designed to foster innovative approaches to these critical problems.

#### *I. Section 8 Community Investment Demonstration Program*

In June 1992, the General Accounting Office issued a report entitled *Pension Plans: Investments in Affordable Housing Possible with Government Assistance*. In the report, GAO suggested that efforts to expand pension fund involvement in financing affordable housing require three key elements: financial intermediaries that can package the financing necessary to make these projects viable; the ability to convert the investment assets into liquid, marketable securities; and the presence of Federal Government assistance in the form of subsidized funds and investment safeguards. Under this Demonstration Program, groups such as the AFL-CIO Trust can serve as intermediaries, Fannie Mae and Freddie Mac can provide the secondary market, and the Section 8 certificates can represent the Federal assistance. Such a structure would go a long way toward meeting the requirements outlined in the report.

As the GAO report noted, Federal assistance is critical to any effort to encourage pension fund investment in affordable housing. The Section 8 Community Investment Demonstration Program is the type of assistance that pension funds require. At a time of severe budget constraints at the Federal level and similar reductions at the state and local levels, new sources of investment capital are needed for the production of affordable housing. Pension fund capital, when properly secured, can be one of those sources.

While the demonstration will encourage the development of affordable housing, it is important to note that pension funds will not be permitted to make investments that do not meet the strict prudence standards contained in the Employee Retirement Income Security Act of 1974 and in state laws. The Demonstration Program will operate within the existing fiduciary rules for pension funds. These rules are critical to protecting the retirement needs of plan participants and their families.

Moreover, although any pension fund or entity established to invest pension funds would be eligible to participate in the demonstration, no pension fund would be required to participate. It is important that pension funds maintain the flexibility to evaluate and select the investment opportunities that are most consistent with the investment objectives and restrictions of the fund.

#### *II. The Role of Section 8 Project-Based Assistance*

Under this Demonstration Program, the Secretary of Housing and Urban Development would be authorized over a period of five years to provide up to \$100 million in Section 8 project-based assistance for projects that use pension funds as a source of permanent financing.

For investors of pension funds, the project-based Section 8 assistance would make the projects more financially feasible and secure, and would make much of the hous-



ing to be constructed with pension funds affordable for families with incomes below 80% of median income. Furthermore, by providing Section 8 contracts for assistance payments, the Federal Government will make it possible for investors to underwrite the loans so as to make them eligible for securitization by Fannie Mae, Freddie Mac, state and local housing agencies or other private mortgage securitization providers. Securitization of these loans will make them liquid and marketable. Liquidity and marketability of the investment asset are essential preconditions if we expect to attract pension capital.

From the perspective of the Federal Government, the proposed Section 8 Community Investment Demonstration Program would encourage pension funds to invest in the construction and rehabilitation of affordable housing, including FHA owned or distressed properties. At least 50% of the Section 8 assistance under this program would be targeted to assist in the disposition of multifamily properties owned by HUD or multifamily mortgages held by HUD. These projects present enormous challenges for the Department and the Nation, and would benefit from this kind of demonstration program.

Today there are over 18,000 distressed units owned by HUD through foreclosure and tens of thousands of distressed units owned by public housing authorities. It is essential for the Department and the Nation that these units be rehabilitated and put back into service as expeditiously as possible. This Demonstration Program will teach us all how to tackle these severely distressed projects and demonstrate secure ways in which pension funds can be involved.

The Demonstration Program will also allow flexibility in the term of the Section 8 assistance. This flexibility component of the program is critical to its success. Section 8 assistance must be tailored to assist each project to achieve feasibility and to fit the financial structure of each project. This is because of the great variability in market costs for the different types of projects contemplated by this program, and because of the complex and varying types of financial assistance individual sponsors must assemble. For example, in higher cost markets, if one were undertaking the rehabilitation of distressed projects, and if market rate rents were restricted by any number of factors, financial feasibility and required credit enhancement from entities such as Fannie Mae may very well be dependent upon the project receiving longer term project based Section 8 assistance. Similarly, in these very projects, the certainty of the longer term Section 8 assistance would minimize recapture risk for the tax credit equity investors. Thus, a project that would not normally benefit from private investments would become a more attractive investment to the GSEs, pension investors and tax credit purchasers by virtue of the security and predictability of the underlying cash flow.

### *III. The Growth of Pension Funds*

Pension funds have become a major force in America's financial markets. It is estimated that pension funds total some \$4 trillion. Pension funds now account for one-third of the securities market and 40% of the bond market. Pension funds have grown remarkably in recent years and now represent 31% of total U.S. financial assets.

To date, however, U.S. pension funds have invested only a small percentage of their assets in affordable housing or community economic development in our cities. By contrast, it is worth noting that an increasing amount of these funds are invested overseas. A 1992 survey of *Pension and Investments* found that 66% of the top 200 U.S. pension funds invested \$93.5 billion in foreign securities. In fact, it is estimated that between 5% and 7% of U.S. pension funds are currently invested in foreign securities. That translates to at least \$150 billion invested overseas on any given day. It is worth considering the amount of economic activity that would follow if some of that capital returned home to invest in America's communities.

In the global competition for capital, the challenge we face is to provide pension funds with the solid investment opportunities that exist in America's communities. This cannot be achieved without providing security, liquidity and market returns for the pension fund investor. In the field of housing, this requires the active participation of Fannie Mae and Freddie Mac or similar securitization. This will not occur, in any meaningful or sustained way, until there is predictability and security to the underlying cash flow. The project based Section 8 certificates, as noted, provide that.

However, a word of caution is in order. U.S. pension funds are not simply investment capital. They are the hard-earned retirement savings of 50 million Americans. Because pension assets are held in trust funds exclusively to serve participants and retirees, they are governed by strict fiduciary rules that require prudent investment. These standards must form the solid foundation of any pension investment strategy. We believe that the Demonstration Program should require that all pension investments be secured by FHA, Fannie Mae, Freddie Mac or similar private

securitization. This is a critical component of the program. Without it, there would be little support for the initiative. In sum, this Demonstration Program will help develop new approaches to solving our worst housing problems, while providing pension investors the kind of security they need to support this initiative.

#### *IV. The Pattern of Disinvestment in Cities and the Reduction in Federal Assistance*

Even as there has been dramatic growth in American pension fund assets, there has been sustained disinvestment in our cities over the past two decades. The widespread effects of sustained public and private disinvestment in industry, infrastructure, education and human resources threaten the Nation's economic future. Nowhere is this reality more acute than in America's cities. And yet, as Members of this committee know all too well, the Federal Government's ability to provide needed investment capital will have to be reconciled with the constraints imposed by the crippling Federal deficit.

This decline in investment, by both the public and private sectors, has consequences not only for the urban poor, but for the working and middle classes as well. Throughout the Nation there is anxiety about the ability of our economy to produce the types of jobs upon which the ultimate quality of life of urban America depends. Sustained disinvestment leads to decline, and the physical and economic effects of decline are self-perpetuating. In fact, the effects of the decline are compounded and become the rationale for continued disinvestment.

#### *V. The National Partnership for Community Investment*

The AFL-CIO Housing Investment Trust currently invests funds for over 344 independent pension funds, union sponsored as well as other private and public funds. For the one year period ending June 30, the Trust had a rate of return of 10.42%. In its 30 years of operation, the Trust has financed the construction of more than 30,000 housing units.

Recognizing that there is a need for innovative strategies to attract new sources of capital to American cities, the AFL-CIO Investment Program has initiated the National Partnership for Community Investment. Over the next five years, through the National Partnership Initiative, we will target up to \$660 million of new investments in housing and economic development projects across the Nation. These investments will leverage an additional \$550 million of capital from public and private sources—tax syndication, private equity contributions, secondary debt financing, operating subsidies and various grant funds—resulting in over \$1.2 billion of total new investment. Approximately 10,000 to 12,000 affordable housing units, 1 million square feet of commercial investment, and 15,000 to 20,000 jobs will be created directly by the program. The secondary economic effects could be equally significant.

Our commitment to locate and finance affordable housing and economic development projects under the National Partnership for Community Investment initiative will continue regardless of whether this legislation is passed. However, with the incentives offered by the Demonstration Program, the Trust will be able to help finance housing for families with incomes below 80% of median income. Without the Section 8 project based assistance offered by this legislation, market considerations and our underwriting criteria would require that we focus our efforts on higher income families.

The National Partnership for Community Investment will bring private pension capital into a partnership with the Federal Government, local communities and the private sector to help address three fundamental objectives: to produce decent and affordable housing opportunities; to demonstrate cooperative ways to build stable urban economies; and to create good quality jobs. These objectives can be realized without subordinating the interests of the pension fund investors or putting retirement dollars in jeopardy.

Mr. Chairman, the Section 8 Community Investment Demonstration Program that we discuss today is the kind of specific Federal assistance that will make our efforts, and the efforts of others, more successful. It will also encourage other pension funds to become engaged in the necessary business of producing affordable housing and rebuilding America's cities. In many ways, we are at a crossroads. The need for affordable housing increases as the available financial resources decrease. If this Demonstration Program can help to increase the flow of pension funds for the production of affordable housing, then we can face the challenge of providing a decent, safe and affordable home for every American family with renewed conviction.

Mr. Chairman and Members of the committee, the AFL-CIO Housing Investment Trust looks forward to working with you and the Secretary on this Demonstration Program. We urge you to support the proposed legislation.

I would be happy to respond to any questions from the Chairman or Members of the committee.

## TESTIMONY OF MARYANN RUSS

EXECUTIVE DIRECTOR, COUNCIL OF LARGE PUBLIC HOUSING AUTHORITIES (CLPHA)

Chairman Sarbanes, Members of the committee, staff and guests. Thank you for inviting me to testify today. My name is MaryAnn Russ and I am the Executive Director of the Council of Large Public Housing Authorities (CLPHA), an organization representing sixty larger Housing Authorities that own and manage 40% of the Nation's public housing stock (over half a million units) plus hundreds of thousands of Section 8 certificates and vouchers.

Above all else, Mr. Chairman, I would like to say how very pleased we are that the new Administration at HUD has already decided to submit a package of technical amendments to improve various aspects of the public housing program. HUD Secretary Cisneros has announced that he considers the public housing program to be one of the top priorities of his Department. What a welcome change this represents from just eight months ago!

In the proposed amendments submitted last week, HUD has addressed some of the most important issues in public housing:

- crime, drug and alcohol abuse and security;
- economic incentives needed for public housing residents who go to work; and,
- the needs of severely distressed public housing.

CLPHA is generally very pleased with these proposals, although we only obtained a copy last Friday afternoon and have not had a chance to review them thoroughly. We have some suggestions for improvements, and we look forward to continuing to work with your committee and with HUD on these proposed amendments.

*Severely Distressed Public Housing*

We support HUD's proposal to delete the statutory requirement that PHAs draw up a list of names of all their developments they consider to be "severely distressed" for purposes of determining eligibility of funds under Section 24. We believe that there is little value in such a comprehensive list and that it may actually be harmful. Labeling developments as severely distressed when there is no immediate prospect for a turn-around stigmatizes them, demeans the self-esteem of the residents and might also appear to sanction reduced investments by the municipality and the private sector in the surrounding neighborhood. It is much preferable to designate a specific development as 'severely distressed' only when it is simultaneously announced that improvements can be expected soon.

We support increasing the dollar cap on planning grants to \$500,000 for very large developments, allowing planning for community service activities as an eligible activity for planning grants and adding community services as eligible implementation activities.

The definitions of "community service" and "supportive services" are helpful additions to Section 24. We would, however, urge revision of the definition of supportive services to more closely parallel the definition of supportive services found in the Urban Revitalization Demonstration (URD), including its reference to the broad range of services authorized under the public housing Gateway program initially proposed by CLPHA.

HUD proposes to add to the statute that funding under Section 24 can be used to provide replacement housing, as HUD already is doing by NOFA in FY93. For the sake of clarity, we would propose to add to the proposed new Section (F) "replacement of public housing units lost as a result of activities funded under this Section, when required under Section 18, . . .", to make it clear that these funds would not be used to fund replacement activities more generally.

We support increasing the cap on supportive services to no more than 20% of the implementation grants.

Section 24 already allows the Secretary to take into account national geographic diversity in approving applications. HUD is proposing a change in this wording. It is not clear to CLPHA what problem exists in the current language. The problem we see with HUD's proposal is that, by making it explicit in the statute that "the Secretary may select a lower-rated, approvable application over a higher-rated application to increase the level of national geographic diversity of applications approved under this section," the statute could then be interpreted as implying, through the omission of other explicit reasons, that the ONLY factor other than a rigid point score system that the HUD Secretary might consider would be geographical diversity. That would be a serious mistake. Point-score systems can be used as one part of any method HUD develops for evaluating applications, but there is such a great variety of differences among the developments for which applications will be submitted under this Section that 'good judgment' must continue to be the predominant basis for awarding the grants, not such a rigid point score system. We



believe that the current statutory language does not need changing and that HUD's proposed change would have the potential for unintentionally doing more harm than good.

### *Replacement Housing*

Not included in the HUD proposal is the addition to Section 24 of the more flexible provisions for replacement under HOPE VI, including that PHAs may replace up to one third of the units using tenant-based assistance—as per the existing HOPE VI program. We recommend that these provisions be added to Section 24.

### *Implementation Grant Selection Criteria*

HUD proposes a different wording stressing the quality of the proposal, not the potential of the applicant for developing a successful and affordable program. We understand the purpose of this change, but we think it should be left a little more flexible. Some PHAs may submit reasonably good applications that can still be improved in a variety of respects. We think the wording should say, "the quality of the proposal and the potential of the applicant to improve the proposal still further and carry out a successful program . . ." etc. PHAs should be provided an opportunity to improve their proposals as part of the selection process, not be prohibited from doing this.

### *Definitions*

We have a number of concerns with this section.

Under HUD's proposed criteria (B), the vacancy rate is introduced as a definitional criteria. While we agree that the vacancy rate in a development can be one indicator of distress, we do not believe that a specific, arbitrary cut-off point, proposed here by HUD as a 50% vacancy rate, should be established to define distress for purposes of this section. It should be sufficient to say that HUD may consider the vacancy rate to be one measure for determining degree of distress. In HUD's proposal, the patterns of "and's" and "or's" leaves it somewhat ambiguous as to whether or not a 50% vacancy rate would always be a requirement. We would strongly oppose such a requirement, and assume that HUD does not intend it. The provisions concerning vacancies should be changed.

HUD proposes to add, as a part of the definition of severely distressed, that a PHA prove that such a development "cannot be revitalized through assistance under other programs, such as the programs under Sections 9 and 14 (development, MRDP and modernization), or through other administrative means because of the inadequacy of available funds." CLPHA opposes this provision. It generally cannot be proved in the abstract that a Housing Authority cannot address the needs of a distressed development in any other way than through the use of funds provided under Section 24. If a PHA were granted enough money from a different source, for example modernization or MRDP, along with the flexibility and regulation waivers needed to do the entire job, it could probably do so. This is unlikely but not impossible. HUD's proposed statement should be deleted. However, we consider that it would be reasonable for HUD to ask the PHAs to include as a part of its application a statement as to why it would be very difficult for the PHA to address the needs of this distressed development using other programs alone.

We understand HUD's intent in adding part (D) to the definitions, concerning 'separability'; presumably this would make it easier for HUD to provide a grant to a PHA that is only doing a part of a development, especially where the FY93 500 unit limitation prevents the PHA from doing the entire development. While this provision satisfies a need on HUD's part to make an administrative clarification, the proposed language does not address the substantive problem, which is how to improve the viability of the turn-around being funded, when only a proportion of the development is being funded in any one year. This substantive issue needs to be addressed by HUD more directly.

### *Choice in Management*

Section 25 of the Housing Act of 1937 currently limits the applicability of "choice in management" provisions to "a public housing project, or one or more buildings within a project, that (A) is owned or operated by a troubled public housing agency; and (B) has been identified as severely distressed under Section 24 of this Act." In the past, CLPHA has opposed the use of "severely distressed" as an eligibility criterion for "choice in management."

HUD now proposes to eliminate provision (B), through a "conforming amendment," since PHAs will no longer be required to develop a list of distressed developments. HUD's proposed 'conforming amendment,' however, would have the (probably unintended) effect of opening up "choice in management" to all developments owned and operated by troubled PHAs. CLPHA objects to that change.



Some other procedure is necessary to limit Choice in Management to a subset of public housing developments that (i) have been subject to long-standing bad management and (ii) have physically deteriorated, but whose ailments could be remedied within the existing operating subsidy and modernization funds allocated to the project.

#### *Role of National Commission on Community Service*

CLPHA is reviewing the role of this Commission in the first round of HOPE VI (Section 24) funding. The Commission is due to issue its recommendations to HUD within the next two weeks and CLPHA will comment in more detail to your committee on this issue after we have seen these reports.

#### *Other Provisions of HOPE VI to be Included in Section 24*

CLPHA will submit a list of other provisions included in the HOPE VI program that we would like to see included in Section 24, e.g. the definition of community service.

#### *Use of Modernization Funds for Replacement Housing*

HUD proposes allowing PHAs to use modernization funds to develop additional housing to be used as replacement for units to be demolished, or disposed of, rather than modernized. In addition, HUD's proposal would give a priority for incremental development units to PHAs that use their modernization money for replacement purposes in connection with Section 18 activities (demolition or disposition).

We have heard such proposals made in the past and they have a certain plausibility, but we think they are basically misconceived. The usually stated justification is that it can be wasteful for a PHA to modernize every public housing development, and would be better in some cases if a PHA used its modernization money to tear down a development, or a portion thereof, and build or acquire new units instead.

We agree that some public housing developments should be demolished or disposed of, rather than modernized, but the modernization program can not bear the burden of being a new construction program as well. HUD currently has two separate programs, one for modernization and one for development, each with its own rules and procedures. Funding levels for the mod program are far below what is needed just to keep up with new needs as they accrue and eliminate the current backlog within a reasonable time period (10 years).

Replacement housing costs far more (\$90,000 per unit) than the modernization needs currently factored into HUD's formula (only \$15,000 per dwelling unit as of January 1, 1986). Thus each new unit developed would cost several units not modernized. This is not a good trade-off.

Recent estimates say that \$4.7 billion in annual modernization funds are needed, compared to \$3.1 billion in current funding to keep up with new needs as they accrue and eliminate the backlog within ten years. Using the mod money for new development will result in modernization activities being even more deeply underfunded, and PHAs will fall even further behind.

Instead, what is needed is an expansion of the public housing development program, which is most suited to meet replacement needs. I have recently participated in lengthy discussions at HUD on how to make the development program more workable and more flexible, and to allow PHAs to use it more easily as a means of providing replacement housing. If HUD follows through on these recommendations, there is no reason why PHAs should not be able to use the development program much more easily for these purposes. This is clearly preferable to confusing the goals, purposes, rules, procedures and funding levels of the modernization, development and MROP programs.

#### *Use of Tenant-Based Assistance as Replacement Housing*

HUD proposes to allow a PHA to demolish without meeting the replacement requirements "If there is no need for additional assisted housing in the community, as determined in accordance with criteria determined by the Secretary." CLPHA believes that this determination should be left to the PHA itself, after holding a public hearing on the subject, and then submitted to HUD for approval.

HUD would permit a PHA to replace public housing with a five-year tenant-based assistance if:

- project has been vacant for five years or more; or,
- proposed demolition is necessary for revitalization of the remaining units in the development; or,
- demolition of the entire project is proposed, and some or all of the units will be replaced on site.

CLPHA proposed that (a) above should instead read, "the majority of units in a development or building have been vacant for five years or more".

CLPHA supports HUD's proposal to allow PHAs to do replacement housing outside the jurisdiction of the PHA, with the conditions proposed by HUD.

CLPHA also supports the amendment to exempt replacement housing from the so-called "market test."

It should always be the PHA's choice as to whether to do replacement using 'hard units' or Section 8. The proposal to allow Section 8 in the case where the proposed demolition is necessary for the revitalization of the remaining units makes sense. HUD's proposal also allows use of Section 8 as replacement where demolition of the entire project is proposed and "some or all units" would be replaced on site. We suggest an alternative that would say "the majority of units would be replaced on site," or "the density of units on the redeveloped site would reflect the density in the surrounding neighborhood."

#### *Exempt Replacement Housing From Impaction Requirements*

One very important item which CLPHA believes to be critical to the success of turning around many distressed developments, but not in the HUD proposals, is an explicit statutory exemption of replacement housing from impaction requirements when the replacement housing is to be located on the same site or in the same neighborhood. In such cases, there would be no increase in racial concentration, or in the concentration of assisted housing, in the neighborhood. In the past, HUD Field Offices have sometimes applied the impaction even to on-site replacement.

#### *COMPAC*

HUD's proposals are in most ways improvements on the current PHDEP program, which has proved to be very valuable to PHAs.

CLPHA commends HUD's proposals to broaden the eligible purposes. We also recommend that the list of eligible activities be expanded even further to include items such as: alcohol treatment and rehabilitation; recreational activities for youth; security dogs; vehicles to take residents, especially youth, on trips and recreational activities; and other items contained in a recent CLPHA report on security. CLPHA will submit such an expanded list separately, for consideration.

We applaud the shift in the program proposed by HUD to give more importance to rehabilitative purposes and community policing, rather than strictly for traditional law enforcement types of activities.

We have some concerns about the funding mechanism. One thing of great importance to CLPHA member PHAs is that they be able to obtain a steady, reliable flow of funding from one year to the next. We acknowledge that PHAs that cannot demonstrate performance should not get the money, but other PHAs should be able to count upon getting these funds, so that they can plan for and implement their programs on a predictable basis. The PHDEP funding has fluctuated widely from year to year, and in FY93 substantial numbers of larger PHAs received no PHDEP funding at all, because HUD's point score system for distributing the funds gave them marginally lower scores than some other PHAs.

Attached is a recent CLPHA analysis of the distribution of FY93 PHDEP funds. A review of the PHDEP allocations for FY93 shows that these trends were aggravated in the extreme.

A more reliable and predictable method is needed for funding the crime/drug/security programs, at least for the larger PHAs. After reviewing the HUD proposal, we believe that it does not genuinely provide a reliable method of multi-year funding. It simply allows HUD to provide grants to PHAs for more than one year, which is the case now.

CLPHA staff have analyzed a variety of ways in which funds might be allocated by formula, and we have carefully looked at the idea of basing some of the formula upon crime rates in local communities. What we have found is that there is a huge range of variation in the index crime rates (per thousand population) reported by local police departments, for their cities as a whole, and published by the FBI. Many drug-related crimes are also excluded from the index crimes.

In addition, city-wide index crime rates often do not reflect the over-concentration of crimes in public housing developments, especially larger family developments.

It is far from clear therefore that the crime rate for a city as a whole should be used by HUD as a predictor of need for funding under this program, especially given the wide variations in reporting among local communities.

CLPHA believes that federal public housing crime/security funds should be allocated to fund primarily those activities for which PHAs themselves are especially responsible, over and above the public safety responsibilities of a local municipal government. The program should not be used simply to make up for the failure of local municipalities to provide the same level of security services in public housing that they do in the surrounding community. Rather, it should be targeted to situa-

tions that exist where PHAs have responsibilities for security OVER and BEYOND that which the local police department is responsible for providing. Such situations are present especially in the case of larger public housing developments, and especially larger family developments, whether low-rise or high-rise, where there are extensive commons spaces such as interior courtyards, hallways and stairwells that need to be watched and patrolled regularly but where this is not the responsibility of the local police. [Such supplemental security activities could either be provided directly by the PHA, or else by the local police under a supplemental, "additional level of services" contract with the PHA. Many PHAs prefer the latter to establishing their own police forces.]

We therefore recommend that the statute include a specific funding formula specifying that;

- half the money would be allocated to all PHAs equally on a per unit basis; and,
- the other half would be allocated according to the ratio, for each PHA, of the percentage of a PHA's units contained in family developments of 150 units or larger, compared to the national percentage (which is currently about 44%).

We support such a formula on the further condition that PHAs with 1250 or more units would be held harmless at the highest amounts of the combined total of their PHDEP and Youth Sports grants received in the most recent two years.

Developments of 150 units or more usually have interior courtyards, stairwells, common hallways, etc. that particularly require this additional level of effort, and where local police do not conduct routine patrols.

The total amount of funding for PHAs with fewer units (e.g. 1250 units or less) could be determined by HUD using the same procedure but then be put into a common pot and allocated by HUD on a competitive grants basis, so that excessively small grants are not awarded by formula.

CLPHA is also opposed to expanding the eligible recipients to non-PHAs, although PHAs should be allowed to use some of the money in areas adjacent to public housing developments.

#### *Economic Incentives for Public Housing Residents: Ceiling Rents*

CLPHA supports legislation authorizing fair ceiling rents. Ceiling rents will provide an economic incentive for upwardly mobile residents to seek employment or to move up, because ceiling rents will cap each development's rent at a fair monthly payment that does not exceed what the units are worth. The current ceiling rent calculation is cumbersome and non-functional because it includes a badly mis-conceived calculation of 'imputed debt service'.

To help prevent that kind of miscalculation in the future, CLPHA suggests that HUD's proposal for ceiling rents to be "not less than the reasonable rental value of the unit, as determined by the Secretary . . ." might be spelled out in somewhat more detail. For example, "not less than the reasonable rental value of the units to be based, at the option of the PHA, on either neighborhood rents for comparable units, or the value of the 95th percentile rent from each development's rent roll." Either of these alternatives could produce a fair rent. We also urge HUD to ask for the appropriations necessary to enact such ceiling rents. We understand that HUD estimates the cost to be at least \$40 million in FY94.

Congress might also wish to consider whether to put some limit on the cap on rents if a resident's income continues to rise. CLPHA suggests that ceiling rents might be phased out gradually after a resident's income rises above the 80 percent of median income eligibility point. It seems unfair to keep such families on ceiling rents for any extended period of time when the need for public housing is so great.

#### *Changes in Rent Increases for Households Who Go to Work: Disallowance of Earned Income for Residents Who Obtain Employment*

CLPHA supports the Administration's proposed eighteen month disallowance of earned income for families with members who go to work after being unemployed for one or more years. This will be a help in encouraging families to seek training and employment. For maximum effectiveness, however, this provision must be combined with implementation of the 1990 rent deductions.

There is a structural inequity in the present rent calculator: rents are based on gross income less certain deductions. The existing deductions for non-elderly families are for dependents, child care costs and handicapped assistance expenses. This formula works fairly well for people on fixed incomes, but very poorly for the employed.

Basing rent on gross income less the above deductions establishes an unlevel playing field for working families. They do not get to take home their gross pay. As for all other workers, federal, state and (often) local taxes and social security are de-



ducted. The 1990 deduction of 10 percent of earned income would help correct this disparity.

In addition, many public housing residents' first jobs have few or no medical benefits. The current law permits the deduction of medical insurance costs (along with other unreimbursed medical benefits) for elderly families only. This is a blow to working families. First they lose their Medicaid and then they have to pay a rent based on gross income, before deductions for medical insurance.

Implementing the eighteen month income disallowance alone will give working families eighteen months in which to save to move out or to quit their jobs. Most will not benefit from ceiling rents, at least initially, but at the end of eighteen months their rents will increase dramatically. Without the 1990 deductions, the eighteen month disallowance is just a temporary fix.

Training stipends should not be counted as income.

The most important thing that HUD should do is implement (and Congress should fund) the 1990 NAHA deductions.

#### *Modernization, Streamlining*

CLPHA would like to submit separately a number of proposals for refining some current statutory provisions regarding the modernization program, that would allow HUD to streamline the modernization process.

#### *Miscellaneous Other Provisions Proposed by HUD: Section 8*

*Freeze on administrative fees.* It appears upon first glance that this proposal is better than OMB's earlier proposals, but we need more time to evaluate the impact upon PHAs, and how the administrative fees would be adjusted in future years.

We also continue to recommend that Congress combine the certificate and voucher programs into a single program, more like certificates. We believe this could be done easily, based upon proposals which have previously been submitted to Congress.

#### *Project-Based Budgeting*

CLPHA supports HUD's proposal to raise the threshold for project-based budgeting.

#### *Correction of Definition of Family*

We support this proposed correction.



COUNCIL 122 C STREET  
OF LARGE NORTHWEST  
PUBLIC SUITE 865  
HOUSING WASHINGTON, DC  
AUTHORI 20001-2109  
TIES Telephone (202) 638-1300  
FAX (202) 638-2364

CLPHA

Research Report #93-3

## Analysis of FY'93 Public Housing Drug Elimination Program (PHDEP) Grant Awards

JULY 1993

by John P. Vitella, CLPHA Research Associate

HUD AWARDS 1993 PHDEP GRANTS TO HUNDREDS OF SMALL PHAS, BUT PROVIDES NO FUNDING TO MANY LARGER PHAS (INCLUDING BALTIMORE, CLEVELAND AND MIAMI) WITH SEVERE CRIME PROBLEMS. MANY PROGRAMS WILL HAVE TO BE TERMINATED AND STAFF LAID OFF.

PHDEP Grants totaling \$145,525,000 were recently awarded by HUD to 437 Public and Indian Housing Authorities in 45 states and Puerto Rico. Within the CLPHA membership, fourteen (14) PHA's did not receive funding in FY'93: New Haven, CT; Wilmington, DE; Louisville, KY; New Orleans, LA; Akron, OH; Cleveland, OH; Harrisburg, PA; Washington, DC; Dade County, FL; Baltimore, MD; Albany, NY; Jacksonville, FL; Columbus, OH; and Meridian MS.

The first eleven (11) of the PHA's listed above received funding in FY'92 and have drug elimination program efforts in place. The absence of funding for these efforts in FY'93 for these PHA's will be particularly devastating.<sup>1</sup> Programs will have to be terminated and staff laid off. The value of extensive training and orientation programs for security staff will be lost.

The distribution of funds by HUD was highly skewed against larger PHAs. PHAs with 1250 units or more manage 80% of the nation's public housing, but received only 63% of the 1993 funding! In addition, smaller PHAs received two to three times as much money, on a per unit basis, as larger PHAs that were funded. This clearly demonstrates that HUD's funding allocation procedure is seriously flawed. A more equitable method for distributing funds under this useful and important program is urgently needed.

<sup>1</sup> The Jacksonville, FL and Columbus, OH housing authorities did not receive PHDEP funding in either FY'92 or FY'93. Meridian, MS did not apply for PHDEP funding in FY'93

### ANALYSIS OF FY'93 GRANTEES

There were 437 grantee authorities in 1993. (See Summary table attached.)

- Nearly 75% (324) of all grantees have 1,250 units or less.
- Nearly half (210) of all grantees have 500 units or less.
- The 324 small PHA's with fewer than 1,250 units (74% of all grantees), which represent 148,093 units (19% of all funded units), received 37% of the total funding (\$53.6 million).
- The 113 large PHA's with 1,250 units or more (26% of all grantees), which represent 648,581 units (81% of all funded units), received only 63% of the total funding (\$91.9 million).
- The 21 very large PHA's with 5,000 units or greater which represent 430,911 units (54% of all funded units), received only 35% of the total funding (\$50.6 million).
- The 8 largest PHA's with more than 10,000 units which represent 335,339 units (42% of all funded units), received only 25% of the total funding (\$36.7 million).

### ANALYSIS OF AWARDS BY PHA SIZE GROUP

CLPHA also has analyzed the FY'93 PHDEP grantees in terms of the dollars awarded per unit month to the various PHA size groups. Using the same eight (8) size groups, the 437 PHA/IHA grantees and their dollars awarded per unit month (total dollars awarded divided by total units in the group) were charted on the attached chart entitled "FY'93 PHDEP Grantees, Dollars Awarded Per Unit Month by PHA Size Group". The actual per unit month<sup>2</sup> dollar amounts for each size group are as follows:

PHA Size Group	Dollars Per Unit Month
0 to 100 Units	\$66.57
101 to 250 Units	\$39.61
251 to 500 Units	\$39.06
501 to 1,250 Units	\$24.35
1,251 to 2,500 Units	\$16.04
2,501 to 5,000 Units	\$15.55
5,001 to 10,000 Units	\$12.11
10,000 + Units	\$9.13
AVG (MEAN)	\$15.22

<sup>2</sup> For purposes of this calculation, the award per unit was divided by an assumed spend-out period of 12 months to get a "per unit month" figure. The full \$/unit amount awarded can be obtained by multiplying the above figures by twelve.

As shown on the attached chart, there was an inverse relationship between the dollars awarded per unit month and the PHA size group. The smallest size group, 0 to 100 units, received the highest dollars per unit month (\$66.57), while the largest size group, 10,000 units or more, received the lowest dollars per unit month (\$9.13).

- The largest PHA's, those in the two size groups having 5,001 units or more, received less than the average dollars per unit month (\$15.22) for all grantees (\$12.11 and \$9.13 respectively).
- The large PHA's, those in the two size groups having between 1,251 and 2,500 units, received about the average dollars per unit month for all grantees (\$16.04 and \$15.55 respectively).
- The smaller PHA's, those in the four size groups having between 0 and 1,250 units received above average dollars per unit month, with the smallest PHA's receiving well above the average.

### CONCLUSIONS

The implications of the analysis of these data are extremely serious, especially for large PHAs. They show that the PHDEP funding in FY'93 has been disproportionately distributed to the smaller PHAs.

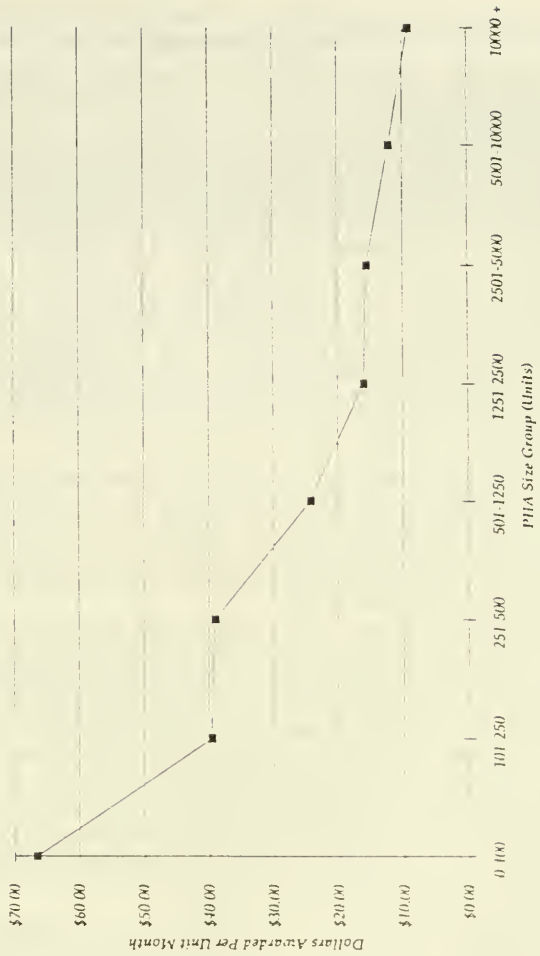
According to HUD, many large PHA's were not funded because they narrowly missed the cutoff on the applications ranking scale used by HUD. This illustrates the dangers of a so-called 'competitive' program whereby the very largest PHA's with the greatest crime problems must compete with the very smallest PHA's for the same funding dollars.

CLPHA has recently developed a variety of proposals for changing the program, including a possible formula funding approach for PHAs with 1250 units or more, and is currently discussing these proposals with HUD and Congress.

	A	B	C	D	E	F	G	H
1	FY'93 Grantees							
2	Public Housing Drug Elimination Program (PHDEP)							
3	Summary Table							
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20	SOURCES: U.S. Department of Housing and Urban Development, Public and Indian							
21	Housing, Office of Resident Initiatives, "FY 1993 Grantees for the Public and Indian Housing Drug							
22	Elimination Program"; HUD 50058 MTCs Database, and "NAIHO Directory of Local Agencies, 1992".							
23								
24	Prepared By: Council of Large Public Housing Authorities (CLPIHA), July 1993.							



# FY'93 PHIDEP Grantees, Dollars Awarded Per Unit Month by PIA Size Group



TESTIMONY OF MARILYN MELKONIAN  
PRESIDENT, TELESIS CORPORATION

Mr. Chairman, it is a pleasure to be before this committee to comment on the very important proposals from the Secretary and his new Department of Housing and Urban Development.

What the Secretary has proposed is the most comprehensive re-statement of HUD's multifamily disposition policy in 14 years. It is part of a series of innovative proposals to improve the operation of HUD programs across the board. This Secretary and this Department have seized the moment for positive change. They deserve support and cooperation in shaping and enacting these creative proposals.

This is a re-invigorated Department of Housing and Urban Development, but these are old problems, especially in the area of HUD owned properties and their disposition. In the last Democratic Administration, my job was Deputy Assistant Secretary of HUD with responsibility for multifamily housing including disposition of multifamily properties. At that time, issues similar to the ones we face today confronted the Department. In 1978, a series of amendments to the National Housing Act established a multifamily disposition and preservation policy which was adopted by the Congress. These amendments established goals to be furthered by the Secretary which included preservation of housing and neighborhoods, maintenance of stock in good condition, and minimizing displacement of tenants and demolition of projects.

The Congress recognized that to achieve these goals, the Secretary would have to balance competing interests and limited resources. Therefore, it left the Secretary the discretion to make choices that would be in the interest of maintaining the affordable housing supply, protecting tenants, and protecting the interests of the Federal Government. The Congress entrusted the implementation of this policy to the Secretary and permitted the Department to set out detailed programs in its regulations and program procedures.

In subsequent years, as we well know, the Congress withdrew a great deal of the trust it had in the Department and relied more and more on detailed legislation which required the Department to carry out specific disposition programs. As the Secretary has described, this led to an unworkable disposition policy. The requirements that the Congress has placed on the disposition program can not be carried out with the resources at hand. A new policy is needed.

The changes the Secretary has requested to the disposition program are very progressive steps to deal with the HUD owned inventory with the resources available. They would give the Department more flexibility in its disposition program and would eliminate the obligation to a class of projects currently entitled to Section 8 subsidies upon disposition. Relieving the Department of this obligation merely recognizes the reality of limited resources. However, I would suggest that in regard to the treatment of formerly unsubsidized and formerly subsidized properties, the Department requires even greater flexibility.

Currently, approximately one third of the HUD owned and in foreclosure multifamily properties are formerly subsidized properties and approximately two thirds are formerly unsubsidized. The distinction between formerly subsidized and unsubsidized properties is often artificial. These properties often make similar contributions to the affordable housing supply and have similar economic and tenant profiles. In addition, the location of formerly unsubsidized projects often furthers important housing goals such as racial and economic integration. The Department should have the flexibility to look at the circumstances of formerly unsubsidized projects and determine whether or not it makes sense to use Section 8 resources in connection with their disposition. Similarly, the Department should also have the discretion to look at formerly subsidized projects and reach the conclusion that not all units in projects which were previously assisted with Section 8, need to be provided with a new Section 8 subsidy. These two policies, mandating that all previously subsidized units in formerly subsidized projects receive new subsidies and prohibiting project based Section 8 subsidies from being added to formerly unsubsidized projects are both inefficient. They are inefficient because they ignore the social and economic characteristics of individual projects which determine the need for a particular subsidy. In short, the Congress should give this Department goals and guidelines and new resources, but it should leave to the Department the ways and means to achieve these goals with the tools and resources at its disposal.

The Department has a number of techniques in its disposition program including repairs, write down of cost, as well as project and tenant based subsidies which can be mixed and matched to achieve preservation objectives. A write down of the disposition cost, which the Department has the authority to carry out, can often reach the goal of serving the current tenant population without the need for Section 8 sub-

sidies. Where this approach is less costly to the government, the Secretary should be permitted to make that judgment and use Section 8 subsidies only where they are needed.

I recommend to this committee that it pursue in its discussions with the Department the articulation of clear and firm goals, define new resources, and leave it to the Department to implement a program. A year from now, performance can be measured, lessons learned, and new guidelines provided if necessary. The stock of federally assisted housing is an important resource. As Will Rogers said, "We ain't making any more of it." We should find a way to use our resources, techniques, and skills to best preserve that stock as part of the affordable housing supply. The Department's proposals are firm steps in that direction.

## RESPONSE TO WRITTEN QUESTIONS OF SENATOR RIEGLE FROM HENRY CISNEROS

**Q.1.** Most of the multifamily loans that are winding up in default were reviewed in advance before being guaranteed by HUD. In reviewing the loans, HUD was supposed to deny insurance on those deemed exceedingly risky. What changes are you making in HUD's loan review and underwriting process to protect the Department against future defaults?

**A.1.** For the most part, we believe that HUD field offices do not insure projects that are "exceedingly risky." FHA insured multifamily defaults and claims occur for a variety of reasons including changes in the economy, changes in market/neighborhood conditions, poor management by the project owner and poor underwriting. Poor underwriting has generally not been a factor on FHA claims that are filed on seasoned loans, i.e., where projects have been in operation for 3 years or more. In those instances, there are usually other factors that contribute to the defaults. For example, the two states with the highest amounts of claims paid under the Section 223(f) program are the oil patch states of Texas and Oklahoma which experienced adverse market conditions in the 1980s. As the economies of those states suffered, so did the Department's insured portfolio.

Defaults during the early years of project operation can sometimes be attributed to underwriting, e.g., in instances where market conditions remained stable but the owner was unable to attain the estimated rents and/or the actual operating expenses exceeded the HUD estimate. This results in insufficient net income to pay debt service and an FHA insurance claim may result.

The Department recognizes that poor underwriting or overly optimistic underwriting can contribute to project defaults and has instituted several changes in underwriting policy over the past 2 years. In a Housing Notice dated May 20, 1991, the following changes were made:

(a) Rental and expense estimates are based on current market conditions. "Trending" of rents to the anticipated date of occupancy is no longer permitted.

(b) Rental estimates should be in the middle range of comparable unit rents and take into account rent concessions and actual occupancy rates for comparable projects.

(c) Occupancy estimates for unsubsidized projects cannot exceed 93 percent and may be lower if market conditions warrant.

There has also been a renewed emphasis on training. The Department believes that a well trained staff is critical to the successful operation of our programs. As an example, HUD has contracted with the Appraisal Institute to provide training for HUD appraisers precedent to their becoming "certified appraisers." While HUD appraisers are not required to have such certifications in order to perform their duties, the effort to standardize and "regulate" the appraisal industry was created by Congress and HUD believes that it is critical that its appraisers receive the same training and conform to the same standards applied to non-government appraisers who perform appraisals that are submitted to entities that are regulated by the Federal Government.



**Q.2.** What specific steps beyond what is contained in the legislative proposal do you think should be taken to give the Department greater flexibility in managing and selling distressed properties in the future?

**A.2.** The legislative proposal provides HUD with considerable flexibility in key areas, such as targeting the inventory to be preserved as subsidized housing and more flexibility in deciding how best to preserve this inventory. The legislation also addresses the delays in disposition caused by the present right of first refusal process.

In addition to the legislative changes, HUD is considering other changes that do not depend on legislation. Among the initiatives being explored are ways of:

- (1) attracting more competent property managers;
- (2) consolidating functions in high inventory offices;
- (3) revising subsidy funding plan procedures so that the timing of the disposition process is improved;
- (4) improving marketing of the inventory to attract new buyers;
- (5) involving state housing finance agencies;
- (6) taking advantage of the expertise of other agencies, such as the RTC, to help dispose of the inventory.

**Q.3.** Does the Department's disposition strategy contemplate securitization of HUD held notes? If so, how would such a program work?

**A.3.** HUD will develop a disposition strategy in conjunction with its financial advisor. For the most part, this disposition strategy will focus upon the sale of whole loans. Upon the advice of the financial advisor, HUD would consider securitization in special cases. Upon hiring of the financial advisor in the next 30 days, the Department will be prepared to outline any needs and the program for securitizing loans.

**Q.4.** What are the administrative management reforms which will be undertaken to save the taxpayer and HUD future losses?

**A.4.** There are several administrative management reforms that can, in some degree, help the Department reduce the risk of future losses associated with portfolio management and disposition. These management measures can be characterized as follows:

- Managing information needs;
- Providing the right tools to do the job;
- Clearly defining management accountability; and
- Providing sufficient "critical mass" to perform essential services.

The Department has established a Multifamily Asset Management Work Group, consisting of top Headquarters and Field staff representing a variety of technical disciplines. This group is charged with investigating and assessing loss prevention measures that can be implemented within the existing staffing base. The items which are being implemented or considered include the following examples:

#### *Management Information Needs*

- Execution of a multifamily housing "early warning" system for providing timely information on the financial and physical condition of the insurance-in-force and assigned mortgages portfolio.

- Automation of the collection and analysis of project annual financial statements. By using contractor staff to collect and automate key financial data field loan servicer staff resources will focus on uses of this important data rather than the logistics of data management.
- Automation of on-site project management and physical inspections using pen-based laptop computers.

### *Management Tools*

- Implement an acceptable multifamily mortgage refinancing vehicle under Section 223(a)(7).
- Improve the funds allocation process for loan management and Flexible Subsidies to provide more timely response for dealing with project problems.
- Investigate cost-effective changes for expediting Section 241 loan processing.
- Implement a mortgage sales program for unsubsidized mortgages.
- Reassign bond financed projects where bond refunders can cure defaults.

### *Management Accountability*

- Develop and execute loan servicer training covering financial aspects of mortgage workouts and the appropriate application of financing techniques to resolving project mortgages.
- Update servicing handbooks and prepare a comprehensive monitoring handbook.
- Provide technical expertise to Regional and Field Office servicers using contract consultants.

### *Improve Use of Available Staff Resources*

- Use loan sales and contracting to reduce the loan servicing workload to reasonable levels. Current workload does not permit reasonable attention to problem loan servicing.
- Create a network of specialists to provide assistance to servicers in loss mitigation, loan workout and refinancing.
- Provide Field Office staff greater flexibility in the application of mitigation actions for distressed properties.
- Contract with State and local housing finance agencies to service parts of the portfolio, freeing HUD staff to deal with targeted loans.
- Consolidate servicing functions in certain offices to relieve other offices of staff-intensive processing. For example, this could include Flexible Subsidy loan application processing or final endorsement processing for Section 202 and 811 applications.

**Q 5.** I commend your efforts to develop the Community Partnerships Against Crime program. In many of the Nation's public and assisted housing developments, crime and drug-related activities have significantly contributed to a deteriorating quality of life for residents.

**Q.5(a).** Can you explain to the committee the manner in which awards will be made under COMPAC?

**A.5(a).** Under the COMPAC program the Secretary will set forth criteria for establishing a class of housing authorities (HAs) that have severe crime problems. To establish this class of applicants, the Secretary would consider the average crime, neighborhood and physical condition of the HA's developments using the most recent standardized data.

Preliminary analysis suggests that indicators of crime and estimated project need should be used. City-wide annual crime data taken from the Department of Justice FBI Uniform Crime Reports for the most recent 2-3 years would represent crime condition. The most promising indicators are per capita measures of murder and robbery, each indexed separately and weighted equally. Estimated project need would be based upon values already computed for the funding of physical backlog need in the Comprehensive Grant formula of public housing modernization. This formula uses well-tested indicators of physical and neighborhood need such as the average size of household, the age of the development, high rise family status, and measures of HA size and city-wide population loss applied to family projects. The crime and project need indices would be weighted equally in determining the per capita funding of the targeted class of HAs.

In order to ensure continuity of previous programs, this formula would hold harmless all housing authorities at the absolute funding level for FY 1992 under the Public and Indian Housing Drug Elimination Program. The identified funding level would be designated for each HA and would continue each year for five years within the structured formula indices and appropriated funding levels.

Housing authorities classified within the targeted severe crime areas would submit a comprehensive security plan to cover a five year period. This initial application would be reviewed and required to meet a minimum competency score on the quality of the plan, capability of the HA to implement the plan, and the community involvement demonstrated in the development and implementation of the recommended strategy. The application would also include an assessment tool which would standardize tracking of crime and management indicators.

At the end of the first year and for a total of four consecutive years, HAs will submit a performance review report updating indicators as reported in the original assessment tool. They will also report strategy implementation progress and any requests to alter their comprehensive security plan. Following the review of this performance report, the next year's funds will be released to the targeted HAs.

The remaining funds not targeted to the class of HAs with severe crime problems will be made available to all other HAs under a competitive process. HAs will submit grant applications to cover a two year period. The Secretary will award preference points to applicants seeking a subsequent grant if the grant is to be used to continue or expand activities assisted under a previous grant which is being managed soundly and demonstrates success. Applications will be reviewed under the selection criteria as established by statute.



**Q.5(b).** What selection criteria will be used to evaluate the merits of applications?

**A.5(b).** Four selection criteria will be used in reviewing applications:

- (1) The assessment of the crime problem.
- (2) The quality of the plan submitted to address the crime problem.
- (3) The capability of the applicant to carry out the plan.
- (4) The extent to which tenants, local officials, community based organizations and other agencies participate in the design and implementation of the activities proposed.

**Q.5(c).** Will medium and small sized cities still be eligible to receive awards?

**A.5(c).** As referenced in answer 5(a) all housing authorities will be eligible to apply. The amount of funding they receive will vary according to the established formula.

**Q.6.** To what extent have the current problems in HUD's multifamily programs been exacerbated by the fact that in the last ten years, the Department has been cut to approximately 13,500 from 17,000?

**A.6.** Resource shortages, including staffing shortages, have contributed to the FHA multifamily portfolio problems currently experienced by the Department. While quantifying the relative impact of resources in contributing to the current problem is difficult, both independent audits and Inspector General reports clearly indicate that staffing shortages are an important factor. The Department does not have sufficient loan servicer staff to deal with the current portfolio. Furthermore, the Department has available neither the management and financing tools nor the ability to execute management solutions to the problems inherent in managing a highly complex inventory. No private business operating with the constraints imposed on the FHA could survive in such an environment.

The staffing dilemma is illustrated by FHA's recent experience. Since the end of Fiscal Year 1991, the Office of Housing, which administers the multifamily housing programs, in both Headquarters and the Field, has been under an absolute hiring freeze. The net staff losses since the imposition of the freeze are now approaching twelve percent. While the staff levels have dropped precipitously, the property and assigned mortgage inventories have increased by twenty-four percent and continue to climb. Also, during this same time frame, substantial numbers of remaining Headquarters and Field Servicing staff have been diverted from their normal routine to work on other priorities such as Section 8 CFS-TRACS.

While loan servicing staff levels have declined, the Department has been further hampered by significant additional budgetary and management impediments. For example, the levels of funding made available for property disposition, loan management and Flexible Subsidy grants and loans have been reduced and continue to be threatened because of budgetary constraints. The Department has no effective means for executing mortgage refinancing for insured and assigned mortgages to take advantage of current favorable interest rates. Assigned mortgage sales have proven impos-



sible and loan servicing and loan modification tools have been hampered by varying interpretations of credit reform rules.

The combination of declining staff resources, inadequate information systems and the lack of management and servicing flexibility available to the private market have substantially contributed to the current condition of the FHA portfolio.

**Q.6(a).** Why has the Department not sought additional staffing?

**A.6(a).** Presidential Executive Order 12839 requires HUD to reduce its staffing levels by an additional 545 FTE by the end of FY 1995. Within the current budget environment, the question is not how many more additional staff positions are needed. Rather, the question is how to best utilize the scarce staffing resources available to the Department.

In this regard, HUD has begun an effort to reexamine and redesign its resource allocation process.

This effort will provide a better match between staffing allocation decisions and workload, staffing skills, and risk management requirements.

In particular, for HUD's multifamily housing programs, these efforts will assist management in identifying staffing resource requirements on the basis of performance and workload considerations.

Moreover, efforts by HUD's Management Excellence Team to redesign core Departmental business process should enhance HUD's management capabilities and improve the productivity of HUD's workforce.

**Q.7.** A former Federal Housing Commissioner from the Bush Administration, Ms. C. Austin Fitts, has stated that billions of dollars would be saved by aggressively striking deals with developers rather than foreclosing on distressed projects.

**Q.7(a).** Is HUD considering developing such a strategy for the future? If so, how will the Department ensure that the taxpayers' interest is adequately protected?

**A.7(a).** HUD has recently implemented a number of tools which act on this strategy of working with developers in order to avoid foreclosure. On June 30, 1993, the Office of Housing provided to the Field Offices the ability to negotiate workout arrangements with private owners for up to nine years. Previously, a 36-month time limit was required to bring a loan current prior to foreclosure. However, given the current economy and differential between current cash flow and required cash flow this was not sufficient time to cure a default. Finally, HUD has developed guidance implementing both the Partial Payment of Claim and Bond Refunder legislation, which permits a restructuring of the mortgage and results in HUD (and the taxpayers) not having to pay the full amount of the claim.

The Office of Housing is aggressively pursuing the refinancing of high interest mortgages insured by the Department, to the extent allowable under existing refinancing programs, in an attempt to prevent future problems with healthy insured properties. In reducing the amount of debt service these projects are required to pay, fewer properties will be likely to default on their insured mort-

gages. Incentives for refinancing are currently being discussed which would permit developers to share in a portion of the savings of refinancing in Section 8 properties in order to create an incentive for all parties to avail themselves of the interest rate climate.

All of these strategies have been or will be enacted to minimize losses to the Department and, in turn, the taxpayers. Whether it is working with developers before or after the payment of a claim, we believe these efforts will assure that the maximum amount of dollars remain in the FHA insurance fund and a minimal amount of taxpayers funds are used to subsidize our losses.

**Q.7(b).** Does this strategy require legislation?

**A.7(b).** Not currently.

## HUD LEGISLATIVE PACKAGE

"THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1993"—S. 1299

BY THE

NATIONAL ASSOCIATION OF HOUSING AND REDEVELOPMENT OFFICIALS

The following are the views of the National Association of Housing and Redevelopment Officials on legislation proposed by HUD and introduced as S. 1299 on July 28, 1993. These positions reflect the views of our members, after reviewing the bill, and are adopted by the NAHRO Board of Governors on July 31, 1993.

## RENT REFORM

The purpose of rent reform in public and HUD-assisted housing is to remove impediments to low income residents who want to work. Currently when a resident of public or HUD-assisted housing gets a job and earns income, their rent goes up, consuming the increased income. At the same time, other public assistance benefits, like Medicare and Aid to Families with Dependent Children, are reduced or terminated.

With rent reform, families are able to compensate for work-related expenses which reduce their take-home pay. And they are able to retain more of their earned income for daily living needs, other than shelter costs, and to save toward other goals like further education and relocation to the private housing market. A second result is that "working poor" families in public housing and developments with Section 8 Rental Assistance remain in the developments as role models and stabilizing influences on those communities.

We support the two initiatives in the bill before you as important first steps toward a broad, comprehensive rent reform effort by HUD and local housing agencies administering HUD rental assistance programs. The income exclusion proposal tracks much of what NAHRO members have long advocated—a break on the rent for those who get a job and increased income.

We suggest *seven improvements* to the legislation:

- (1) Apply the ceiling rents and income exclusions to Section 8 residents as well
- (2) Phase-in rent increases for a period of up to five years with a 10 percent cap on annual rent increases
- (3) Defer increased resident income for 24 months rather than 18
- (4) A 20 percent deduction of earned income for working families
- (5) Exclude income for residents in job training and other self-sufficiency programs
- (6) Previous unemployment period should take into account and not penalize seasonal or temporary employment by residents
- (7) Voluntary escrow accounts for Family Self Sufficiency families

*Inclusion of Section 8 residents* in rent reform is critical to promoting self-sufficiency among low income families. They suffer the same consequences of dramatic rent increases as do families in public housing when their income goes up.

The *rent housing authorities-in* (over three years) provided in current law (Sec. 957) avoids the shock to the resident of having rent suddenly jump up significantly as a result of the resident's earned income. This provision should be modified to permit a housing authorities-in of rent over a five year period after the income exclusion period. This will provide an increase in rental income for the housing authority and a manageable increase for the resident.

*Deferring increased income* for two years, rather than 18 months as proposed in the HUD bill, gives the resident family more breathing room to adjust to their changed economic status (earned income versus welfare) and prepare for self-sufficiency.

A *20 percent deduction of earned income for working families* further helps self-sufficiency efforts by permitting them to compensate for Federal, State, and local deductions; for health care; for day care; for social security deductions; and other work-related expenses which consume more than 20 percent of gross income.

*Residents in job and other training programs* who receive a stipend should not be penalized by rent increases. We read the bill to remove the exclusion of such stipends and permit income exclusion only for employment.

*Seasonal and temporary employees should be covered by these provisions.* By requiring previous unemployment of one or more years, the bill may not take into account seasonal and temporary workers who have earned income, but who do not meet the one year unemployment test.

A *voluntary FSS escrow account* gives residents the option to decide how to manage their own finances, how much to spend, how much to save, and the vehicle for



that savings. Current law makes escrow accounts mandatory for all FSS participants.

HUD should have a time certain to write the rules. This has been a continuing problem for agencies and residents at the ground level who are promised changes in HUD programs in national legislation and still do not have the HUD rules and guidance to make them a reality two to four years later.

*The ceiling rent proposal* in the bill would enable the Department to provide a menu of ways for local agencies to establish ceiling rents to best fit the needs of their residents.

We concur in this and are developing a rent reform proposal spelling out several such options, which we hope to share with the Department and with this subcommittee.

We believe local housing authorities should be able to set workable ceiling rents which meet the needs of public housing residents in their specific locality. The ceiling rents should last for five years.

## COMPAC

NAHRO has expressed concern with the original formula allocation of Drug Elimination Grants proposed by the Department because the bulk of the funds would have been channelled to large housing authorities (more than 1250 units) without a competition, while the vast majority of housing authorities with equally serious drug and crime problems would have had to compete for the remaining 20 percent of the funds. Our members believed this was an unfair allocation process.

The proposal before you today continues to trouble us. Drug-related and other crime terrorizes residents of public housing without regard to the size of the authority, where it is located, or the age of the occupants. Seniors are beset by prostitution rings, drug dealers, robberies, rapes, and murders. Families face the same threats in family developments.

The problem presented by COMPAC is essentially that there is too little money for a very big problem which touches all 3400 Public and Indian housing authorities and the 1.4 million residents, both seniors and families living in them.

We continue to be concerned that COMPAC will pit large housing authorities, of which there are 157, against all other housing authorities, of which there are 3180. The resultant funding distribution, we believe, will unfairly disadvantage the vast majority of housing authorities and at least 40 percent of the Nation's public housing residents. NAHRO, by the way, represents a majority of "large" housing authorities as well as medium and small authorities.

We offer an alternative for your consideration, which we believe is fairer and which ensures a dependable stream of funding that enables all housing authorities to plan and develop a comprehensive crime deterrence and reduction program.

Our proposal would require each housing authority to prepare a three year plan to identify its crime prevention and reduction needs and establish the base need for funding. The plan would be updated by housing authorities, with an indication of progress made, to date, in accomplishing stated program goals. The broadened eligible activities of COMPAC, including security hardware, community policing, youth recreation/sports, and resident job training and related services would be included.

A formula allocation to each housing authority would be made based on the total number of public housing units the housing authority manages. Funding would be contingent on HUD approval of the housing authorities plan and appropriations. The dollar per unit would be a function of the annual appropriation divided by the number of public housing units under management nation-wide. If the President's budget proposal for COMPAC of \$265 million is approved by the Congress, each housing authority would receive a formula COMPAC grant of approximately \$175 per unit, after the 6.5 percent set-aside for private owners of HUD-assisted housing.

The NAHRO proposal does not use crime statistics to determine eligibility or the amount of the grant. Our member housing authorities tell us that crime is a problem for each of them, be it prevention and/or reduction and elimination. The number of Public Housing units in an agency's inventory is as good an indicator as is a compilation of national crime statistics. Those with the most significant problem have more units and will get proportionally more funding.

This dollar-per-unit formula would result in cities like Baltimore receiving \$3.2 million; Detroit \$1.5 million; St. Louis \$1.2 million; Cleveland \$2.1 million; Newark \$2.02 million; Omaha \$527,275; Los Angeles \$1.6 million; Chicago \$7.02 million; Boston \$2.2 million; Bridgeport \$394,275; Las Vegas \$449,400; Dade County \$1.97 million. With two exceptions, these funding levels are more than these jurisdictions received in drug grants for the most recent round for which they were funded.



Smaller housing authorities with equally serious crime problems would also receive grants. For example, Winooski, VT would receive \$32,900; Glassboro, NJ \$31,500; Battle Creek, MI \$56,000; Hagerstown, MD \$206,500; Peoria, IL \$354,200; Gallup, NM \$47,950; Wilmington, DE \$450,100; Wake County, NC \$60,200; Rensselaer, NY \$25,550; Poplar Bluff, MO \$105,700; Reno-Sparks Indian Housing Authority \$18,375; Waltham, MA \$46,375; Fort Pierce, FL \$148,750. Many of these communities have never received a Drug Elimination Grant.

A formula allocation would reduce the administrative and paperwork costs of annual grant proposals to all housing authorities, but which is particularly burdensome for smaller housing authorities.

We propose that housing authorities have the flexibility to carry over COMPAC funds from one year to the next within their three year plan in order to stretch the dollars the farthest while ensuring that they are buying a service or piece of hardware which will make a significant dent in their crime problem.

We support the partnership concept fostered by COMPAC between the housing authorities and local neighborhood-based groups, local police, and residents of the affected properties. COMPAC funds may be able to leverage additional dollars from these and other service providers which will further enhance the bang for the buck of this important crime prevention program.

The COMPAC proposal rightly recognizes the need to fight crime both on public housing property as well as adjacent properties which are HUD-assisted.

### SEVERELY DISTRESSED PUBLIC HOUSING

NAHRO concurs with the proposal to conform the severely distressed program authorized by the 1992 authorization law with the HOPE VI program created by the FY 1993 HUD appropriations law. HUD has chosen the best features of each program and woven them into one coherent program. And we concur with the use of Severely Distressed Grants for one-for-one replacement units.

*We disagree strongly, however, with the proposal to permit Severely Distressed Public Housing developments to double and triple dip into other HUD accounts to pay for one-for-one replacements.* We oppose opening up the Public Housing Development and Public Housing Modernization accounts to Severely Distressed Public Housing for replacement purposes. Our members feel strongly that this blurs the purposes of these two programs and will create a drain on them which will unfairly disadvantage all other public housing developments, which are not distressed, and in need of additional public housing and/or modernization of their existing public housing stock.

With \$300 million appropriated for Severely Distressed Public Housing in FY 1993 and an additional \$483 million proposed for FY 1994, this newly authorized program is off to a good start. The justification for further funding sources has not been made.

### ONE-FOR-ONE REPLACEMENT OF PUBLIC HOUSING

For replacement of non "severely distressed" public housing, NAHRO supports the use of five-year vouchers as replacements for public housing demolished or disposed of by housing authorities, as an additional replacement option to 15 year project-based Section 8 and public housing 'hard' unit replacement. In keeping with the "reinvention" of HUD by delegating more decision-making authority and responsibility to the ground level from Washington, NAHRO believes housing authorities should have the authority and responsibility for determining the type and mix of programs to replace public housing units lost from the inventory due to demolition, sale, or other disposition.

### SECTION 8 ADMINISTRATIVE FEE

During the next year, we intend to work with the Department to de-couple the Administrative Fee from the FMR structure and come back to the Congress with a proposal which will fully and fairly compensate housing authorities for the true costs of administering the Section 8 program, including the costs of bookkeeping for portability, Service Coordination costs for Family Self Sufficiency, and Federal Preferences.

Pending that proposal, and an increase in fee for those with increased FMRs, we support a "hold harmless" for those housing authorities with reduced fees.

As you know, HUD, at the urging of NAHRO and a number of Members of Congress, extended the appeals deadline to August 31, 1993 for housing authorities with reduced Fair Market Rents. This will buy time for the Department and some housing authorities with proposed FMR reductions to more carefully scrutinize and

document their local housing markets. The outcome, we hope, will be more accurate Fair Market Rents across the country that truly reflect local housing markets.

## HOME

We concur with the HOME proposals, most of which were proposed to the Department by NAHRO and allied interest groups in a July 2 letter. These program modifications and streamlinings are non-controversial and will enable localities administering both HOME and CDBG to move quickly to generate affordable housing.

*In addition, we suggest that the current annual on-site review of each rental project funded by HOME be replaced with a monitoring plan developed by the Participating Jurisdiction. That monitoring plan would provide for first year rental project monitoring with subsequent monitoring every three years to include a comprehensive financial and management review. An annual desk review of resident files and financial characteristics would be required of all HOME renters.*

Monitoring requirements of HOME tax credit projects should be set by the state housing finance agency.

## COMMUNITY DEVELOPMENT BLOCK GRANTS

We further suggest that CDBG funds be permitted to be used for HOME program administration. And we urge the elimination of the 20 percent CDBG administrative cap for "housing related services". Doing so will provide much needed flexibility to localities to tailor this HUD program with others in a way that delivers affordable housing to the market.

## 108 LOAN GUARANTEES

The use of UDAG recaptures as a grant to localities to write down or defer loan interest rates and/or to set up a loan loss reserve fund will enhance the flexibility of this economic development program that is increasingly being used by localities nation-wide.

## FHA PROPERTY DISPOSITION

We share the concern of all housing providers that the continued shortening of Section 8 rental assistance contracts to meet federal budget constraints ultimately short-changes low income residents by reducing the number of low income developments which are made available to them. This is true, not only for FHA property disposition, but for public housing one-for-one replacement.

As you know, HUD has not requested and Congress has not appropriated 15 year project-based assistance for public housing replacements in more than four years. A five year voucher to hunt in the local housing market for an affordable apartment is not the same as a permanently affordable public housing unit or an apartment with a guaranteed Section 8 rental assistance commitment for 15 years.

We recognize, however, the budget constraints which lead the Department to seek to shorten the term of Section 8 assistance. Our members share the view of one committee witness that a substantial portion of the post-sale subsidy can be reduced if the property is significantly discounted by HUD at sale.

We urge this subcommittee to ensure that public housing authorities are an important partner with the Department in reselling Secretary-held and foreclosed multifamily and single family properties. Housing authorities have long track records and expertise in doing affordable housing deals. They are currently demonstrating this with the RTC/FDIC Affordable Housing program. They are eager and willing to assist HUD in turning the Secretary-held inventory into an affordable housing resource.

## OTHER TECHNICAL CHANGES

We support the following four technical changes in the bill:

(1) Increase Project-based Accounting threshold to housing authorities with 500 or more units;

(2) Eliminate requirement for housing authorities to estimate their replacement needs when applying for Comprehensive Improvement Assistance Program (CIAP) monies;

(3) Clarification of definition of "family" to include couples without children;

(4) Reduce the HOPE III match to 25 percent to conform with match required for HOPE I.

## PUBLIC HOUSING DEVELOPMENT

NAHRO has urged the Department and this committee to make changes to the Public Housing Development program to expedite the pipeline of unspent funds and to increase local flexibility. NAHRO suggested a number of specific proposals in testimony before the Senate Housing Subcommittee on Severely Distressed Public Housing on May 11 and before the House Housing Subcommittee on June 17 on the Public Housing Development and Acquisition program.

## PUBLIC HOUSING MODERNIZATION

We have also worked closely with the Department on modifications to the Modernization program with a view toward expediting the pipeline, reducing HUD micromanagement, and unleashing local creativity in addressing problems of remodelling aging public housing stock. We hope this Department will make such proposals soon so that they might be incorporated in next year's reauthorization bill.

## OTHER AUTHORIZATION ISSUES

NAHRO, along with a number of allied public interest groups, expects the Congress to consider a two year reauthorization program next year, when the current 1992 law expires. Our members have been busy developing a number of proposals for Congressional and HUD consideration using that timetable. These proposals are based on their hands-on experience administering a broad range of HUD low and moderate income programs. They include a merged Section 8 program, reinstitution of the Consolidated Supply Program, a revised Performance Funding System, Family Self Sufficiency service and coordination cost assignment, more comprehensive rent reforms, HOME modifications, and a number of regulatory relief proposals.

So we look forward to working with this subcommittee on that reauthorization bill next year.

Thank you for the opportunity to share our positions with the committee on S. 1299.



BOSTON PUBLIC LIBRARY



3 9999 05981 971 2





ISBN 0-16-043395-9

9 780160 433955 90000

A standard 1D barcode representing the ISBN 0-16-043395-9. The barcode consists of vertical black lines of varying widths on a white background. The numbers 9, 780160, 433955, and 90000 are printed below the respective sections of the barcode.